MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

This Management's Discussion and Analysis ("**MD&A**") for Birchcliff Energy Ltd. ("**Birchcliff**" or the "**Corporation**") dated March 11, 2020 is with respect to the three and twelve months ended December 31, 2019 (the "**Reporting Periods**") as compared to the three and twelve months ended December 31, 2018 (the "**Comparable Prior Periods**"). This MD&A has been prepared by management and approved by the Corporation's Audit Committee and Board of Directors and should be read in conjunction with the annual audited financial statements of the Corporation and the related notes for the year ended December 31, 2019 which have been prepared in accordance with IFRS. Birchcliff adopted IFRS 16: *Leases* ("**IFRS 16**") effective January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. For further information, see "*Changes In Accounting Policies"* in this MD&A. All dollar amounts are expressed in Canadian currency, unless otherwise stated.

This MD&A uses "adjusted funds flow", "adjusted funds flow per common share", "free funds flow", "transportation and other expense", "operating netback", "adjusted funds flow netback", "total cash costs", "adjusted working capital deficit" and "total debt", which do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. For further information, including reconciliations to the most directly comparable GAAP measure where applicable, see "*Non-GAAP Measures"* in this MD&A.

This MD&A contains forward-looking statements and information (collectively, "**forward-looking statements**") within the meaning of applicable Canadian securities laws. Such forward-looking statements are based upon certain expectations and assumptions and actual results may differ materially from those expressed or implied by such forward-looking statements. For further information regarding the forward-looking statements contained herein, see *"Advisories – Forward-Looking Statements"* in this MD&A.

All boe amounts have been calculated by using the conversion ratio of 6 Mcf of natural gas to 1 bbl of oil and all Mcfe amounts have been calculated by using the conversion ratio of 1 bbl of oil to 6 Mcf of natural gas. For further information, see "*Advisories – Boe and Mcfe Conversions"* in this MD&A.

With respect to the disclosure of Birchcliff's production contained in this MD&A: (i) references to "light oil" mean "light crude oil and medium crude oil" as such term is defined in National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**"); (ii) except where otherwise stated, references to "liquids" mean "light crude oil and medium crude oil" and "natural gas liquids" (including condensate) as such terms are defined in NI 51-101; and (iii) references to "natural gas" mean "shale gas", which also includes an immaterial amount of "conventional natural gas", as such terms are defined in NI 51-101. In addition, NI 51-101 includes condensate within the product type of natural gas liquids. Birchcliff has disclosed condensate separately from other natural gas liquids as the price of condensate as compared to other natural gas liquids is currently significantly higher and Birchcliff believes presenting the two commodities separately provides a more accurate description of its operations and results therefrom.

ABOUT BIRCHCLIFF

Birchcliff is a Calgary, Alberta based intermediate oil and natural gas company with operations concentrated within its one core area, the Peace River Arch of Alberta. Birchcliff's common shares and cumulative redeemable preferred shares, Series A and Series C, are listed for trading on the Toronto Stock Exchange (the "**TSX**") under the symbols "BIR", "BIR.PR.A" and "BIR.PR.C", respectively. Additional information relating to the Corporation, including its Annual Information Form for the financial year ended December 31, 2019, is available on the SEDAR website at www.sedar.com and on the Corporation's website at www.birchcliffenergy.com.

HIGHLIGHTS

2019 Year-End Highlights

- Achieved record annual average production of 77,977 boe/d, a 1% increase from the twelve month Comparable Prior Period.
- Liquids accounted for approximately 22% of Birchcliff's total production as compared to approximately 20% in the twelve month Comparable Prior Period, with total liquids production increasing by 14% from the twelve month Comparable Prior Period.
- Delivered $334.5 million of adjusted funds flow, or $1.26 per basic common share, each a 7% increase from the twelve month Comparable Prior Period.
- Generated $78.1 million of free funds flow in the twelve month Reporting Period, an increase from $13.3 million in the twelve month Comparable Prior Period.
- Recorded a net loss to common shareholders of $59.6 million, or $0.22 per basic common share, as compared to net income to common shareholders of $98.0 million and $0.37 per basic common share in the twelve month Comparable Prior Period.
- Achieved record low annual operating expense of $3.09/boe, a 12% decrease from the twelve month Comparable Prior Period.
- Realized an operating netback of $13.07/boe, a 3% decrease from the twelve month Comparable Prior Period.
- Successfully executed the Corporation's 2019 capital program, drilling a total of 30 (30.0 net) wells and bringing 33 (33.0 net) wells on production. F&D capital expenditures were $256.4 million in 2019.
- Total capital expenditures were $300.2 million in the twelve month Reporting Period, which included the $39 million acquisition of 18 gross (15.1 net) contiguous sections of Montney land located between Birchcliff's existing Pouce Coupe and Gordondale properties (the "**Acquisition**"). Birchcliff drilled 8 (8.0 net) wells and completed and brought on production 6 (6.0 net) successful condensate-rich natural gas wells on the acquired lands in 2019.
- Distributed $27.9 million in common share dividends in the twelve month Reporting Period.

Fourth Quarter 2019 Highlights

- Achieved quarterly average production of 77,962 boe/d, a 2% increase from the three month Comparable Prior Period.
- Liquids accounted for approximately 22% of Birchcliff's total production as compared to approximately 21% in the three month Comparable Prior Period, with total liquids production increasing by 9% from the three month Comparable Prior Period.
- Delivered $80.9 million of adjusted funds flow, or $0.30 per basic common share, a 1% decrease and a 3% decrease, respectively, from the three month Comparable Prior Period.
- Generated $24.1 million of free funds flow in the three month Reporting Period, a decrease from $29.2 million in the three month Comparable Prior Period.
- Recorded a net loss to common shareholders of $19.0 million, or $0.07 per basic common share, as compared to net income to common shareholders of $70.9 million and $0.27 per basic common share in the three month Comparable Prior Period.
- Achieved operating expense of $3.06/boe, a 13% decrease from the three month Comparable Prior Period.
- Realized an operating netback of $14.25/boe, a 6% increase from the three month Comparable Prior Period.
- Total capital expenditures of $58.1 million. During the three month Reporting Period, Birchcliff drilled 7 (7.0 net) wells.

See *"Cash Flow from Operating Activities and Adjusted Funds Flow", "Net Income (Loss) to Common Shareholders"*, "*Discussion of Operations", "Capital Expenditures*" and "*Capital Resources and Liquidity*" in this MD&A for further information regarding the financial and operational results for the Reporting Periods and Comparable Prior Periods.

2020 OUTLOOK

Birchcliff is focused on maintaining its strong balance sheet and financial flexibility. In response to the significant decline in commodity prices since Birchcliff announced its 2020 capital program on January 22, 2020, Birchcliff's Board of Directors has approved a reduced capital budget of $275 million to $295 million for 2020, as compared to the previous budget of $340 million to $360 million. Birchcliff's revised capital program for 2020 (the "**2020 Capital Program**") now contemplates the drilling of 28 (28.0 net) wells and bringing on production of a total of 34 (34.0 net) wells during 2020.

The revised 2020 Capital Program now targets an annual average production rate of 78,000 to 80,000 boe/d which is expected to generate approximately $252 million of adjusted funds flow, based on the mid-point of the Corporation's revised annual average production guidance and revised commodity price assumptions for 2020. Birchcliff's objective remains to grow its high-value liquids production in 2020 and drilling will target condensate-rich natural gas wells in Pouce Coupe and oil wells in Gordondale. Funds will also be directed towards completing the 20,000 bbls/d inlet liquids-handling facility (the "**Inlet Liquids-Handling Facility**") at Birchcliff's 100% owned and operated natural gas processing plant in Pouce Coupe (the "**Pouce Coupe Gas Plant**") in order to handle increased condensate volumes in the area. For further details regarding the revised 2020 Capital Program, see the Corporation's press release dated March 11, 2020.

Birchcliff has revised its 2020 guidance and commodity price assumptions to reflect the revised 2020 Capital Program and current economic conditions. The following table sets forth Birchcliff's previous and revised guidance and commodity price assumptions for 2020, as well as its 2019 actual audited results and 2019 guidance for comparative purposes:

	New 2020 guidance and assumptions[(1)]	Old 2020 guidance and assumptions[(2)]	2019 actual results	2019 guidance
Production				
Annual average production *(boe/d)*	78,000 – 80,000	80,000 – 82,000	77,977	77,000 – 79,000
% Light oil	7%	8%	6%	6%
% Condensate	8%	8%	7%	7%
% NGLs	9%	8%	9%	9%
% Natural gas	76%	76%	78%	78%
Q4 average production *(boe/d)*	81,000 – 83,000	87,000 – 89,000	77,962	N/A
Average Expenses *($/boe)*				
Royalty	1.00 – 1.20	1.40 – 1.60	0.96	1.10 – 1.30
Operating	3.05 – 3.25	3.10 – 3.30	3.09	3.15 – 3.35
Transportation and other	4.90 – 5.10[(3)]	4.90 – 5.10	4.44	4.65 – 4.85
Adjusted Funds Flow *(MM$)*	252[(4)]	370	334.5	335
F&D Capital Expenditures *(MM$)*	275 – 295[(5)]	340 – 360	256.4	242
Free Funds Flow *(MM$)*[(6)]	(23) – (43)	10 – 30	78.1	93
Total Debt at Year End *(MM$)*	700 – 720[(7)]	645 – 665	632.6	N/A
Natural Gas Market Exposure				
AECO exposure as a % of total natural gas production	20%[(8)]	22%	33%	34%
Dawn exposure as a % of total natural gas production	45%[(8)]	44%	38%	38%
NYMEX HH exposure as a % of total natural gas production	34%[(8)]	33%	25%	25%
Alliance exposure as a % of total natural gas production	1%[(8)]	1%	4%	3%
Commodity Prices				
Average WTI spot price *(US$/bbl)*	48.00	60.00	57.03	57.50
Average WTI-MSW differential *(CDN$/bbl)*	5.70	8.50	6.97	7.50
Average AECO 5A spot price *(CDN$/GJ)*	1.90	2.10	1.67	1.50
Average Dawn spot price *(US$/MMBtu)*[(9)]	2.15	2.50	2.40	2.44
Average NYMEX HH spot price *(US$/MMBtu)*[(9)]	2.20	2.50	2.63	2.70
Exchange rate *(CDN$ to US$1)*	1.34	1.32	1.33	1.32

(1) See *"Advisories – Forward-Looking Statements"*. Birchcliff's revised guidance for its commodity mix, adjusted funds flow and natural gas market exposure in 2020 is based on an annual average production rate of 79,000 boe/d during 2020, which is the mid-point of Birchcliff's revised annual average production guidance for 2020.

(2) As disclosed on January 22, 2020. Birchcliff's previous guidance for its commodity mix, adjusted funds flow and natural gas market exposure in 2020 was based on an annual average production rate of 81,000 boe/d during 2020, which was the previous mid-point of Birchcliff's annual average production guidance for 2020.

(3) Includes transportation tolls for 175,000 GJ/d of natural gas sold at the Dawn price and includes any unused firm transportation costs associated with Birchcliff's commitments on the NGTL system.

(4) Birchcliff's estimate of adjusted funds flow takes into account the effects of its commodity risk management contracts outstanding as at March 11, 2020.

(5) Birchcliff's estimate of F&D capital expenditures excludes any net potential acquisitions and dispositions and corresponds to Birchcliff's revised 2020 F&D capital budget. See *"Advisories – Capital Expenditures"*.

(6) Free funds flow is calculated as adjusted funds flow less F&D capital expenditures and is prior to acquisitions and dispositions, dividend payments, abandonment and reclamation obligations, administrative assets, financing fees and capital lease obligations. See *"Non-GAAP Measures"*.

(7) The total debt amount set forth in the table above assumes the following: (i) that the timing and amount of common share and preferred share dividends paid by the Corporation remains consistent with previous years, with the dividend rates remaining flat; (ii) that there are 2,000,000 series C preferred shares outstanding, with no series C preferred shares redeemed in 2020; (iii) that the 2020 Capital Program will be carried out as currently contemplated and the level of capital spending set forth herein will be achieved; and (iv) the targets for production, commodity mix, capital expenditures, adjusted funds flow, free funds flow and natural gas market exposure and the commodity price and exchange rate assumptions set forth herein are met. The amount set forth in the table above does not include annual cash incentive payments.

(8) Birchcliff's guidance regarding its natural gas market exposure in 2020 assumes: (i) 175,000 GJ/d being sold at the Dawn index price; (ii) 5 MMcf/d being sold at Alliance's Trading Pool daily index price until October 31, 2020; and (iii) 132,500 MMBtu/d being hedged on a financial and physical basis at a fixed basis differential between the AECO 7A price and the NYMEX HH price.

(9) $1.00 per MMBtu equals $1.00 per Mcf based on a standard heat value of 37.4 MJ/m^3 or a heat uplift of 1.055 when converting from $/GJ.

Birchcliff's 2019 financial and operational results were generally in line with its guidance. Birchcliff's 2019 production was 77,977 boe/d, within its guidance range of 77,000 boe/d to 79,000 boe/d. Royalty expense on a per boe basis in 2019 was 13% lower than the low end of Birchcliff's guidance of $1.10/boe to $1.30/boe, primarily due to a lower average corporate realized sales price in the second of half of 2019. Operating expense on a per boe basis was better than Birchcliff's guidance of $3.15/boe to $3.35/boe, primarily due to operational efficiencies. Birchcliff's transportation and other expense on a per boe basis was 5% lower than the low end of Birchcliff's guidance of $4.65/boe to $4.85/boe, due to the mitigation of excess firm natural gas transportation service. Birchcliff generated adjusted funds flow of $334.5 million in 2019, in line with its guidance of $335 million. Birchcliff's F&D capital expenditures of $256.4 million and total capital expenditures of $300.2 million were 6% higher than its guidance of $242 million and $283 million, respectively, primarily due to the Corporation not realizing previously anticipated cost savings during the execution of its 2019 capital program. Birchcliff generated free funds flow of $78.1 million in 2019 which was 16% lower than its guidance of $93 million, due to higher than anticipated capital expenditures as discussed above. For further information regarding Birchcliff's guidance for 2020, see *"Advisories – Forward-Looking Statements"* in this MD&A.

SELECTED ANNUAL INFORMATION

	2019	**2018**	**2017**
Average production			
Light oil *(bbls/d)*	4,742	4,873	6,004
Condensate *(bbls/d)*[1]	5,145	4,072	2,779
NGLs *(bbls/d)*[1]	7,264	6,123	5,692
Natural gas *(Mcf/d)*	364,958	372,170	320,927
Total *(boe/d)*	77,977	77,096	67,963
Average sales price *(CDN$)*[2]			
Light oil *(per bbl)*	68.29	68.66	61.42
Condensate *(per bbl)*[1]	68.06	77.36	63.14
NGLs *(per bbl)*[1]	13.76	22.92	17.94
Natural gas *(per Mcf)*	2.48	2.45	2.72
Total *(per boe)*	21.55	22.08	22.44
Cash flow from operating activities *($000s)*	327,066	324,434	287,660
Adjusted funds flow *($000s)*	334,504	312,922	317,680
Per common share – basic *($)*	1.26	1.18	1.20
Net income (loss) *($000s)*	(55,392)	102,212	(46,980)
Net income (loss) to common shareholders *($000s)*	(59,579)	98,025	(51,027)
Per common share – basic *($)*	(0.22)	0.37	(0.19)
Petroleum and natural gas revenue *($000s)*[2]	613,559	621,421	556,942
Total capital expenditures *($000s)*[3]	300,246	298,018	276,125
Operating expense *($ per boe)*	3.09	3.52	4.45
Total assets *($000s)*	2,816,685	2,762,920	2,627,108
Long-term debt *($000s)*	609,177	605,267	587,126
Total debt *($000s)*	632,582	626,454	598,193
End of period basic common shares *(000s)*	265,935	265,911	265,797
Weighted average basic common shares *(000s)*	265,930	265,852	265,182
Common shares dividend distribution *($000s)*	27,923	26,586	26,522
Per common share *($)*	0.1050	0.1000	0.1000
Series A preferred shares outstanding – end of period *(000s)*	2,000	2,000	2,000
Series A preferred shares dividend distribution *($000s)*	4,187	4,187	4,047
Per Series A preferred share *($)*	2.0935	2.0935	2.0234
Series C preferred shares outstanding – end of period *(000s)*	2,000	2,000	2,000
Series C preferred share dividend distribution *($000s)*	3,500	3,500	3,500
Per Series C preferred share *($)*	1.7500	1.7500	1.7500

(1) Beginning in Q1 2019, Birchcliff began presenting condensate and NGLs separately. Prior period sales and volumes have been adjusted to conform to this current period presentation. See *"Advisories – Production"*.

(2) Excludes the effects of financial derivatives but includes the effects of physical delivery contracts.

(3) Birchcliff previously referred to total capital expenditures as "net capital expenditure" or "capital expenditures, net". See *"Advisories – Capital Expenditures"*.

Annual average production in 2019 was 77,977 boe/d, up 1% from 2018 and up 15% from 2017. The increase in annual average production from 2017 was primarily due to incremental production additions from new horizontal

oil and natural gas wells brought on production in Pouce Coupe and Gordondale in connection with Birchcliff's successful 2018 and 2019 capital programs, partially offset by natural production declines.

Birchcliff generated higher adjusted funds flow in 2019 as compared to 2018 and 2017. The increase in adjusted funds flow from 2018 was primarily due to lower operating and royalty expenses and a realized gain on financial instruments in 2019 as compared to a realized loss on financial instruments in 2018, partially offset by lower reported revenue and an increase in transportation and other expense as a result of Birchcliff's increased Dawn and AECO firm service. Adjusted funds flow in 2019 and 2018 was also negatively impacted by lower oil production as a result of the disposition of the Corporation's assets in the Worsley area (the "**Worsley Assets**") in August 2017 (the "**Worsley Disposition**"). The increase in adjusted funds flow from 2017 was primarily due to an increase in annual average production volumes, partially offset by a lower average sales price received for Birchcliff's production.

Birchcliff recorded a net loss to common shareholders of $55.6 million ($0.22 per basic common share) in 2019, as compared to net income to common shareholders of $98.0 million ($0.37 per basic common share) in 2018 and a net loss to common shareholders of $51.0 million ($0.19 per basic common share) in 2017. The change to a net loss position in 2019 from a net income position in 2018 was primarily due to a $192.8 million unrealized mark-to-market loss on financial instruments recorded in 2019 as compared to a $64.2 million unrealized mark-to-market gain on financial instruments in 2018, partially offset by higher adjusted funds flow. The net loss to common shareholders in 2017 included a $132.3 million after-tax loss in connection with the Worsley Disposition and lower adjusted funds flow compared to 2019.

Total capital expenditures in 2019 were comparable to total capital expenditures in 2018 and increased 8% from 2017. Capital expenditures in the last three years were largely directed towards the Montney/Doig Resource Play which included: (i) the drilling and completion of new horizontal oil and natural gas wells brought on production in Pouce Coupe and Gordondale; and (ii) the Phase V and Phase VI expansion of the Pouce Coupe Gas Plant (including related wells and infrastructure), which increased the licensed natural gas processing capacity from 180 MMcf/d to a licensed processing capacity of 340 MMcf/d.

Operating expense on a per boe basis in 2019 was lower as compared to the prior two years primarily due to an incremental increase in natural gas production processed at the Pouce Coupe Gas Plant and additional reduced processing fees at AltaGas' deep-cut sour gas processing facility located in Gordondale (the "**Gordondale Gas Plant**"), as well as the disposition of the higher-cost Worsley Assets in August 2017. During 2018, Birchcliff entered into a new long-term natural gas processing arrangement effective January 1, 2018, which significantly reduced its processing fees at the Gordondale Gas Plant.

CASH FLOW FROM OPERATING ACTIVITIES AND ADJUSTED FUNDS FLOW

The following table sets forth the Corporation's cash flow from operating activities and adjusted funds flow for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
	2019	**2018**	**2019**	**2018**
Cash flow from operating activities *($000s)*	85,557	92,200	327,066	324,434
Adjusted funds flow *($000s)*	80,941	81,517	334,504	312,922
Per common share – basic *($)*	0.30	0.31	1.26	1.18
Per common share – diluted *($)*	0.30	0.30	1.26	1.17
Adjusted funds flow netback *($/boe)*	11.28	11.60	11.75	11.12

Adjusted funds flow decreased by 1% from the three month Comparable Prior Period. The decrease was primarily due to a realized loss on financial instruments and an increase in transportation and other expense as a result of Birchcliff's increased Dawn and AECO firm service, partially offset by higher reported revenue and lower operating expense. Revenue received by the Corporation was higher primarily due to an increase in total liquids production and a higher average realized liquids sales price, partially offset by a lower average realized natural gas sales price. As a result of the adoption of IFRS 16 which became effective January 1, 2019, Birchcliff's adjusted funds flow increased by approximately $0.6 million in the three month Reporting Period.

Adjusted funds flow increased by 7% from the twelve month Comparable Prior Period. The increase was primarily due to lower operating and royalty expenses and a realized gain on financial instruments as compared to a realized loss on financial instruments in the twelve month Comparable Prior Period, partially offset by lower reported revenue and an increase in transportation and other expense as a result of Birchcliff's increased Dawn and AECO firm service. Revenue received by the Corporation was lower primarily due to a lower average realized liquids sales price, partially offset by higher total liquids production. As a result of the adoption of IFRS 16 which became effective January 1, 2019, Birchcliff's adjusted funds flow increased by approximately $2.2 million in the twelve month Reporting Period.

Cash flow from operating activities decreased by 7% and increased by 1% from the three and twelve month Comparable Prior Periods, respectively. The reasons for the changes are consistent with the explanation for adjusted funds flow; however, cash flow from operating activities was also impacted by changes in non-cash operating working capital and decommissioning expenditures.

The following table sets forth a breakdown of the Corporation's total cash costs on a per unit basis for the periods indicated:

	Three months ended December 31,			Twelve months ended December 31,		
($/boe)	**2019**	**2018**	**% Change**	**2019**	**2018**	**% Change**
Royalty expense	1.15	0.96	20%	0.96	1.36	(29%)
Operating expense	3.06	3.51	(13%)	3.09	3.52	(12%)
Transportation and other expense	4.51	4.07	11%	4.44	3.68	21%
G&A expense, net	1.26	1.08	17%	0.94	0.87	8%
Interest expense	0.82	1.06	(23%)	0.88	0.99	(11%)
Total cash costs	**10.80**	**10.68**	**1%**	**10.31**	**10.42**	**(1%)**

See "*Discussion of Operations*" in this MD&A for further details regarding the period-over-period movement in revenue and total cash cost inputs.

NET INCOME (LOSS) TO COMMON SHAREHOLDERS

The following table sets forth the Corporation's net income (loss) and net income (loss) to common shareholders for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
	2019	**2018**	**2019**	**2018**
Net income (loss) to common shareholders *($000s)*	**(18,984)**	**70,900**	**(59,579)**	**98,025**
Per common share – basic *($)*	(0.07)	0.27	(0.22)	0.37
Per common share – diluted *($)*	(0.07)	0.27	(0.22)	0.37
Net income (loss) to common shareholders *($/boe)*	(2.65)	10.09	(2.09)	3.48

The change to a net loss position in the three month Reporting Period was primarily due to a $46.6 million unrealized mark-to-market loss on financial instruments recorded in the three month Reporting Period as compared to a $77.4 million unrealized mark-to-market gain on financial instruments in the three month Comparable Prior Period, resulting in a period-over-period change of $124.0 million (or $91.1 million on an after-tax basis). The adoption of IFRS 16 resulted in a $0.1 million decrease to reported net income to common shareholders in the three month Reporting Period.

The change to a net loss position in the twelve month Reporting Period was primarily due to a $192.8 million unrealized mark-to-market loss on financial instruments recorded in the twelve month Reporting Period as compared to a $64.2 million unrealized mark-to-market gain on financial instruments in the twelve month Comparable Prior Period, resulting in a year-over-year change of $257.0 million (or $188.9 million on an after-tax basis), partially offset by higher adjusted funds flow. The adoption of IFRS 16 resulted in a $0.5 million decrease to reported net income to common shareholders in the twelve month Reporting Period.

See *"Discussion of Operations – Risk Management"* and *"Discussion of Operations – Income Taxes"* in this MD&A for further details regarding the period-over-period movement in unrealized gains and losses on financial instruments and income taxes.

POUCE COUPE GAS PLANT NETBACKS

During the twelve month Reporting Period, Birchcliff processed approximately 72% of its total corporate natural gas production and 62% of its total corporate production through its Pouce Coupe Gas Plant as compared to 67% and 57%, respectively, during the twelve month Comparable Prior Period. The following table sets forth Birchcliff's average daily production and operating netback for wells producing to the Pouce Coupe Gas Plant for the periods indicated:

	Twelve months ended December 31, 2019		Twelve months ended December 31, 2018	
Average production:				
Condensate *(bbls/d)*		3,801		2,430
NGLs *(bbls/d)*		934		179
Natural gas *(Mcf/d)*		263,108		250,011
Total *(boe/d)*		**48,587**		**44,278**
Liquids-to-gas ratio[1] *(bbls/MMcf)*		**18.0**		**10.4**
Netback and cost:	*$/Mcfe*	*$/boe*	*$/Mcfe*	*$/boe*
Petroleum and natural gas revenue[2]	3.20	19.17	3.02	18.11
Royalty expense	(0.07)	(0.42)	(0.05)	(0.29)
Operating expense[3]	(0.34)	(2.05)	(0.34)	(2.02)
Transportation and other expense	(0.76)	(4.54)	(0.59)	(3.56)
Operating netback	**$2.03**	**$12.16**	**$2.04**	**$12.24**
Operating margin[4]	**63%**	**63%**	**68%**	**68%**

(1) Liquids consists of NGLs, including condensate.

(2) Excludes the effects of financial instruments but includes the effects of physical delivery contracts. See *"Discussion of Operations – Risk Management"* in this MD&A.

(3) Represents plant and field operating expense.

(4) Operating margin is calculated by dividing the operating netback for the period by the petroleum and natural gas revenue for the period.

The Corporation's liquids-to-gas ratio increased by 73% as compared to the twelve month Comparable Prior Period primarily due to: (i) specifically targeted condensate-rich natural gas wells that were brought on production in Pouce Coupe in 2019; and (ii) the re-configuration of Phases V and VI of the Pouce Coupe Gas Plant in the fourth quarter of 2018 which provided for shallow-cut capability, allowing Birchcliff to extract C3+ from the natural gas stream. The amount of condensate from Montney horizontal natural gas wells being produced to the Pouce Coupe Gas Plant increased by 56% to 3,801 bbls/d in the twelve month Reporting Period from 2,430 bbls/d in the twelve month Comparable Prior Period. The increase in the liquids-to-gas ratio improved Birchcliff's average realized sales price at the Pouce Coupe Gas Plant.

Operating expense per boe at the Pouce Coupe Gas Plant remained largely unchanged from the twelve month Comparable Prior Period and was impacted by: (i) reduced take-or-pay processing commitments in Pouce Coupe beginning in November 2018 that resulted in natural gas being redirected from higher cost third-party facilities to the Pouce Coupe Gas Plant; (ii) increased operating efficiencies resulting from expanded liquids-handling capabilities in Pouce Coupe; and (iii) higher natural gas production processed at the Pouce Coupe Gas Plant during the twelve month Reporting Period.

Transportation and other expense per boe at the Pouce Coupe Gas Plant increased by 28% from the twelve month Comparable Prior Period mainly due to additional firm service transportation to AECO and Dawn sales trading hubs.

DISCUSSION OF OPERATIONS

Petroleum and Natural Gas Revenue

The following table sets forth Birchcliff's P&NG revenue by product category for the Corporation's Pouce Coupe operating assets geologically situated in the dry gas and condensate-rich trends of the Montney/Doig Resource Play (the "**Pouce Coupe assets**"), the Corporation's Gordondale operating assets geologically situated in the oil-rich trend of the Montney/Doig Resource Play (the "**Gordondale assets**") and on a corporate basis for the periods indicated:

	Three months ended December 31, 2019			Three months ended December 31, 2018		
($000s)	**Pouce Coupe assets**	**Gordondale assets**	**Corporate[1]**	**Pouce Coupe assets**	**Gordondale assets**	**Corporate[1]**
Light oil	-	26,544	27,571	-	18,208	18,233
Condensate	23,936	8,115	31,050	15,438	6,226	21,671
NGLs	2,083	9,862	11,945	1,864	11,676	13,539
Natural gas	70,427	23,761	94,188	75,020	26,226	101,249
P&NG sales[2]	96,446	68,282	164,754	92,322	62,336	154,692
Royalty income	2	1	5	4	23	28
P&NG revenue	**96,448**	**68,283**	**164,759**	**92,326**	**62,359**	**154,720**
% of corporate P&NG revenue	**59%**	**41%**		**60%**	**40%**	
	Twelve months ended December 31, 2019			**Twelve months ended December 31, 2018**		
($000s)	**Pouce Coupe assets**	**Gordondale assets**	**Corporate[1]**	**Pouce Coupe assets**	**Gordondale assets**	**Corporate[1]**
Light oil	-	116,803	118,182	-	121,622	122,118
Condensate	96,915	32,201	127,816	74,708	40,519	114,973
NGLs	6,974	29,513	36,488	2,936	48,278	51,221
Natural gas	250,543	80,428	330,973	247,793	84,630	332,979
P&NG sales[2]	354,432	258,945	613,459	325,437	295,049	621,291
Royalty income	14	81	100	18	107	130
P&NG revenue	**354,446**	**259,026**	**613,559**	**325,455**	**295,156**	**621,421**
% of corporate P&NG revenue	**58%**	**42%**		**52%**	**47%**	

(1) Includes other minor oil and natural gas properties that were not individually significant during the respective periods.

(2) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.

On a corporate basis, P&NG revenue increased by 6% from the three month Comparable Prior Period and decreased by 1% from the twelve month Comparable Prior Period. The increase from the three month Comparable Prior Period was largely due to a higher average realized sales price received for Birchcliff's production and an increase in liquids production. The decrease from the twelve month Comparable Prior Period was largely due to a lower average realized sales price received for Birchcliff's production, partially offset by an increase in liquids production.

Production

The following table sets forth Birchcliff's production by product category for the Pouce Coupe assets, the Gordondale assets and on a corporate basis for the periods indicated:

	Three months ended December 31, 2019			Three months ended December 31, 2018		
	Pouce Coupe assets	Gordondale assets	Corporate[1]	Pouce Coupe assets	Gordondale assets	Corporate[1]
Light oil *(bbls/d)*	-	4,271	4,435	-	4,777	4,788
Condensate *(bbls/d)*	3,820	1,245	4,906	2,892	1,317	4,207
NGLs *(bbls/d)*	1,168	6,646	7,814	599	6,215	6,814
Natural gas *(Mcf/d)*	269,314	95,534	364,847	266,774	96,818	363,596
Production *(boe/d)*	**49,873**	**28,085**	**77,962**	**47,953**	**28,446**	**76,408**
Liquids-to-gas ratio *(bbls/MMcf)*	**18.5**	**127.3**	**47.0**	**13.1**	**127.1**	**43.5**
% of corporate production	**64%**	**36%**		**63%**	**37%**	
	Twelve months ended December 31, 2019			**Twelve months ended December 31, 2018**		
	Pouce Coupe assets	**Gordondale assets**	**Corporate[1]**	**Pouce Coupe assets**	**Gordondale assets**	**Corporate[1]**
Light oil *(bbls/d)*	-	4,686	4,742	-	4,852	4,873
Condensate *(bbls/d)*	3,963	1,235	5,145	2,723	1,355	4,072
NGLs *(bbls/d)*	986	6,278	7,264	219	5,903	6,123
Natural gas *(Mcf/d)*	274,009	90,947	364,958	276,004	95,508	372,170
Production *(boe/d)*	**50,616**	**27,357**	**77,977**	**48,943**	**28,028**	**77,096**
Liquids-to-gas ratio *(bbls/MMcf)*	**18.1**	**134.1**	**47.0**	**10.7**	**126.8**	**40.5**
% of corporate production	**65%**	**35%**		**63%**	**36%**	

(1) Includes other minor oil and natural gas properties that were not individually significant during the respective periods.

Birchcliff's corporate production increased by 2% and 1% from three and twelve month Comparable Prior Periods, respectively, primarily due to the success of Birchcliff's 2019 capital program, which resulted in incremental production from new horizontal oil wells brought on production in Gordondale and horizontal condensate-rich natural gas wells in Pouce Coupe, partially offset by natural production declines.

The following table sets forth Birchcliff's production weighting by product category for its Pouce Coupe and Gordondale assets and on a corporate basis for the periods indicated:

	Three months ended December 31, 2019			Three months ended December 31, 2018		
	Pouce Coupe assets	Gordondale assets	Corporate[1]	Pouce Coupe assets	Gordondale assets	Corporate[1]
% Light oil production	-	15%	6%	-	17%	6%
% Condensate production	8%	4%	6%	6%	5%	6%
% NGLs production	2%	24%	10%	1%	21%	9%
% Natural gas production	90%	57%	78%	93%	57%	79%
	Twelve months ended December 31, 2019			**Twelve months ended December 31, 2018**		
	Pouce Coupe assets	**Gordondale assets**	**Corporate[1]**	**Pouce Coupe assets**	**Gordondale assets**	**Corporate[1]**
% Light oil production	-	17%	6%	-	17%	6%
% Condensate production	8%	5%	7%	6%	5%	6%
% NGLs production	2%	23%	9%	-	21%	8%
% Natural gas production	90%	55%	78%	94%	57%	80%

(1) Includes other minor oil and natural gas properties that were not individually significant during the respective periods.

Corporate liquids production increased by 9% and 14% from the three and twelve month Comparable Prior Periods, respectively, and the corporate liquids-to-gas ratio (liquids yield) increased by 8% and 16% from the three and twelve month Comparable Prior Periods, respectively. These increases were largely attributable to incremental production

from new horizontal condensate-rich natural gas wells that were brought on production in Pouce Coupe and an increase in C3+ extracted from the natural gas stream at the Pouce Coupe Gas Plant.

Commodity Prices

The following table sets forth the average benchmark index prices and exchange rate for the periods indicated:

	Three months ended December 31,			Twelve months ended December 31,		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
Light oil – WTI Cushing *(US$/bbl)*	56.96	58.81	(3%)	57.03	64.77	(12%)
Light oil – MSW (Mixed Sweet) *(CDN$/bbl)*	67.66	42.42	60%	68.72	69.04	-
Natural gas – NYMEX HH *(US$/MMBtu)*[(1)]	2.50	3.76	(34%)	2.63	3.07	(14%)
Natural gas – AECO 5A Daily *(CDN$/GJ)*	2.35	1.48	59%	1.67	1.42	18%
Natural gas – AECO 7A Month Ahead *(US$/MMBtu)*[(1)]	1.77	1.45	22%	1.22	1.54	(21%)
Natural gas – Dawn Day Ahead *(US$/MMBtu)*[(1)]	2.23	3.78	(41%)	2.40	3.12	(23%)
Natural gas – ATP 5A Day Ahead *(CDN$/GJ)*	1.92	2.57	(25%)	1.66	2.07	(20%)
Exchange rate *(CDN$ to US$1)*	1.3201	1.3215	-	1.3269	1.2961	2%
Exchange rate *(US$ to CDN$1)*	0.7575	0.7567	-	0.7536	0.7715	(2%)

(1) $1.00/MMBtu = $1.00/Mcf based on a standard heat value Mcf. See "*Advisories – MMBtu Pricing Conversions*" in this MD&A.

Birchcliff sells substantially all of its light oil based on the MSW benchmark price and substantially all of its natural gas production based on the AECO and Dawn benchmark prices. Effective November 1, 2019, Birchcliff increased its firm service transportation to Dawn by 25,000 GJ/d, bringing its total natural gas production receiving the Dawn benchmark price to 175,000 GJ/d (see *"Discussion of Operations – Petroleum and Natural Gas Revenue – Natural Gas Sales, Production and Average Realized Sales Price"* in this MD&A). Birchcliff has also financially diversified a portion of its AECO production to NYMEX HH-based pricing beginning January 1, 2019 (see *"Discussion of Operations – Risk Management"* in this MD&A). The average realized sales prices the Corporation receives for its light oil and natural gas production depend on a number of factors, including the average benchmark prices for crude oil and natural gas, the US to Canadian dollar exchange rate, transportation costs, product quality differentials and the heat premium on its natural gas production.

The benchmark prices for crude oil are impacted by global and regional events that dictate the level of supply and demand for crude oil. The principal benchmark trading exchanges that Birchcliff compares its oil price to are the WTI price and the MSW price. The differential between the WTI price and the MSW price can fluctuate due to a number of factors, including, but not limited to, North American refinery utilization rates, domestic production growth levels, inventory levels in North America and pipeline infrastructure capacity connecting key consuming oil markets.

Canadian natural gas prices are mainly influenced by North American supply and demand fundamentals which can be impacted by a number of factors, including, but not limited to, production growth levels, weather-related conditions in key consuming natural gas markets, changing demographics, economic growth, inventory levels, access to underground storage, net import and export markets, pipeline supply takeaway capacity, maintenance on key natural gas infrastructure, cost of competing renewable and non-renewable energy alternatives, drilling and completion rates and efficiencies in extracting natural gas from North American natural gas basins.

The following table sets forth Birchcliff's average realized light oil, condensate, NGLs and natural gas sales prices for the periods indicated:

	Three months ended December 31,			Twelve months ended December 31,		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
Light oil *($/bbl)*	67.58	41.39	63%	68.29	68.66	(1%)
Condensate *($/bbl)*	68.80	55.99	23%	68.06	77.36	(12%)
NGLs *($/bbl)*	16.62	21.60	(23%)	13.76	22.92	(40%)
Natural gas *($/Mcf)*	2.81	3.03	(7%)	2.48	2.45	1%
Average realized sales price *($/boe)*[(1)]	**22.97**	**22.01**	**4%**	**21.55**	**22.08**	**(2%)**

(1) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.

The average realized sales price increased by 4% and decreased by 2% from the three and twelve month Comparable Prior Periods, respectively, primarily due to the changes in the average benchmark index prices which impacted the prices Birchcliff received for its liquids. The average realized sales price for the twelve month Reporting Period also includes the effects of physical natural gas delivery contracts at Dawn during the first quarter of 2019 for 50,000 MMBtu/d at an average contract price of US$5.05/MMBtu.

The average realized sales price for the Pouce Coupe assets was $21.02/boe in the three month Reporting Period, which remained largely unchanged from the three month Comparable Prior Period. The average realized sales price for the Pouce Coupe assets was $19.19/boe in the twelve month Reporting Period, a 5% increase from the twelve month Comparable Prior Period. The average realized sales price for the Gordondale assets was $26.43/boe in the three month Reporting Period and $25.94/boe in the twelve month Reporting Period, an 11% increase and 10% decrease, respectively, from the Comparable Prior Periods. The Gordondale assets received a higher average realized sales price compared to the Pouce Coupe assets, largely as a result of the higher volume weighting of liquids produced in the Gordondale area, which received a higher value on a per boe basis than Birchcliff's natural gas sales. The higher volume weighting of liquids in the total corporate production mix generally improves Birchcliff's average realized sales price.

For further production and average realized pricing details for Birchcliff's Pouce Coupe assets and Gordondale assets, see "*Discussion of Operations – Operating Netbacks*" in this MD&A.

Natural Gas Sales, Production and Average Realized Sales Price

The following table sets forth Birchcliff's sales, average daily production and average realized sales price by natural gas market for the periods indicated:

	Three months ended December 31, 2019					Three months ended December 31, 2018				
	Natural gas sales *($000s)*[1]	*(%)*	**Natural gas production** *(Mcf/d)*	*(%)*	**Average realized sales price** *($/Mcf)*[1]	**Natural gas sales** *($000s)*[1]	*(%)*	**Natural gas production** *(Mcf/d)*	*(%)*	**Average realized sales price** *($/Mcf)*[1]
AECO	48,976	52	204,461	56	2.60	33,788	33	223,261	61	1.67
Dawn[2]	43,706	46	152,115	42	3.12	64,969	64	127,211	35	5.55
Alliance[3]	1,507	2	8,271	2	1.98	2,492	3	13,124	4	2.06
Total	**94,189**	**100**	**364,847**	**100**	**2.81**	**101,249**	**100**	**363,596**	**100**	**3.03**

	Twelve months ended December 31, 2019					Twelve months ended December 31, 2018				
	Natural gas sales *($000s)*[1]	*(%)*	**Natural gas production** *(Mcf/d)*	*(%)*	**Average realized sales price** *($/Mcf)*[1]	**Natural gas sales** *($000s)*[1]	*(%)*	**Natural gas production** *(Mcf/d)*	*(%)*	**Average realized sales price** *($/Mcf)*[1]
AECO	136,050	41	210,545	58	1.77	132,342	40	229,225	61	1.59
Dawn[2]	185,199	56	140,803	39	3.60	182,385	55	114,110	31	4.38
Alliance[3]	9,724	3	13,610	3	1.96	18,252	5	28,835	8	1.73
Total	**330,973**	**100**	**364,958**	**100**	**2.48**	**332,979**	**100**	**372,170**	**100**	**2.45**

(1) Excludes the effects of financial instruments but includes the effects of physical delivery contracts. A portion of AECO production received NYMEX HH pricing under Birchcliff's long-term financial NYMEX/AECO 7A basis swap contracts. Birchcliff sold financial AECO 7A basis swaps for 95,000 MMBtu/d at an average contract price of approximately NYMEX HH less US$1.28/MMBtu during the Reporting Periods (see *"Discussion of Operations – Risk Management"* in this MD&A).

(2) Birchcliff has agreements for the firm service transportation of an aggregate of 175,000 GJ/d of natural gas on TCPL's Canadian Mainline, whereby natural gas is transported to the Dawn trading hub in Southern Ontario. The first tranche of this service (120,000 GJ/d) became available on November 1, 2017, the second tranche (30,000 GJ/d) became available on November 1, 2018 and the third tranche (25,000 GJ/d) became available on November 1, 2019. Each tranche has a 10-year term. During the first quarter of 2019, Birchcliff had in place physical natural gas delivery contracts at Dawn for 50,000 MMBtu/d at an average contract price of US$5.05/MMBtu for the period from December 1, 2018 to March 31, 2019. There were no physical delivery contracts in place at Dawn subsequent to March 31, 2019.

(3) Birchcliff has sales agreements with a third-party marketer to sell and deliver into the Alliance pipeline system. Alliance sales are recorded net of transportation tolls.

Risk Management

Birchcliff engages in risk management activities by utilizing various financial instruments and physical delivery contracts to diversify its sales points or fix commodity prices and market interest rates. Subject to compliance with the Corporation's credit facilities, the Board of Directors has authorized the Corporation to execute a risk management strategy whereby Birchcliff is authorized to enter into agreements and financial or physical transactions with one or more counterparties from time to time that are intended to reduce the risk to the Corporation from volatility in future commodity prices, foreign exchange rates and/or interest rates.

Financial Derivative Contracts

Birchcliff has not designated its financial derivative contracts as effective accounting hedges, even though the Corporation considers all commodity price contracts to be effective economic hedges. As a result, all such financial instruments are recorded on the statements of financial position on a mark-to-market fair value basis at December 31, 2019, with the changes in fair value being recognized as a non-cash unrealized gain or loss in profit or loss and realized upon settlement. These contracts are not entered into for trading or speculative purposes.

At December 31, 2019, Birchcliff had the following financial derivative contracts in place in order to manage commodity price risk:

Product	Type of Contract	Notional Quantity	Remaining Term(1)	Contract Price
Natural gas	AECO 7A basis swap(2)	30,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2023	NYMEX HH less US$1.298/MMBtu
Natural gas	AECO 7A basis swap(2)	10,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2023	NYMEX HH less US$1.32/MMBtu
Natural gas	AECO 7A basis swap(2)	30,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2023	NYMEX HH less US$1.33/MMBtu
Natural gas	AECO 7A basis swap(2)	15,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2024	NYMEX HH less US$1.185/MMBtu
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2024	NYMEX HH less US$1.20/MMBtu
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2024	NYMEX HH less US$1.20/MMBtu
Natural gas	AECO 7A basis swap(2)	12,500 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2025	NYMEX HH less US$1.108/MMBtu
Natural gas	AECO 7A basis swap(2)	10,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2025	NYMEX HH less US$1.115/MMBtu
Natural gas	AECO 7A basis swap(2)	10,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2025	NYMEX HH less US$1.050/MMBtu
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US$1.178/MMBtu
Natural gas	AECO 7A basis swap(2)	10,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US$1.175/MMBtu
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Jan. 1, 2021 – Dec. 31, 2025	NYMEX HH less US$1.190/MMBtu
Natural gas	AECO 7A basis swap(2)	30,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.114/MMBtu
Natural gas	AECO 7A basis swap(2)	35,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.081/MMBtu
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Jan. 1, 2024 – Dec. 31, 2025	NYMEX HH less US$1.013/MMBtu
Natural gas	AECO 7A basis swap(2)	20,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US$1.005/MMBtu
Natural gas	AECO 7A basis swap(2)	5,000 MMBtu/d	Jan. 1, 2025 – Dec. 31, 2025	NYMEX HH less US$0.990/MMBtu

(1) Transactions with common terms and the same counterparty have been aggregated and presented at the weighted average price.

(2) Birchcliff sold AECO basis swap.

There were no financial derivative contracts entered into subsequent December 31, 2019.

Physical Delivery Contracts

Birchcliff also enters into physical delivery contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value through profit or loss.

At December 31, 2019, the Corporation had the following physical delivery contract in place:

Product	Type of Contract	Quantity	Remaining Term	Contract Price
Natural gas	AECO 7A basis swap(1)	5,000 MMBtu/d	Jan. 1, 2020 – Dec. 31, 2023	NYMEX HH less US$1.205/MMBtu

(1) Birchcliff sold AECO basis swap.

There were no long-term physical delivery contracts entered into subsequent to December 31, 2019.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation's credit facilities are exposed to interest rate risk. The remainder of Birchcliff's financial assets and liabilities are not exposed directly to interest rate risk.

At December 31, 2019, Birchcliff had the following financial derivative contracts in place to manage interest rate risk:

Type of Contract	Index	Remaining Term[1][2]	Notional value	Fixed Rate
Interest rate swap	One-month banker's acceptance – CDOR[3]	Jan.1 2020 – Mar. 1, 2024	$350,000,000	2.215%

(1) Transactions with common terms and the same counterparty have been aggregated and presented at the weighted average price.

(2) Contract terms commenced on March 1, 2019.

(3) Canadian Dollar Offered Rate ("**CDOR**").

Realized and Unrealized Gains and Losses on Financial Instruments

The following table provides a summary of the realized and unrealized gains (losses) on financial instruments for the periods indicated:

	Three months ended December 31,				Twelve months ended December 31,			
	2019		2018		2019		2018	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Realized gain (loss)	(6,565)	(0.92)	1,658	0.24	13,673	0.48	(15,771)	(0.56)
Unrealized gain (loss)	(46,602)	(6.50)	77,443	11.02	(192,765)	(6.77)	64,222	2.28

Birchcliff realized a cash loss of $6.6 million and a cash gain of $13.7 million on financial instruments during the three and twelve month Reporting Periods, respectively, due to the settlement of financial NYMEX HH/AECO basis swap contracts that were outstanding in the periods.

Birchcliff recorded an unrealized non-cash loss on financial instruments of $46.6 million in the three month Reporting Period and an unrealized non-cash loss on financial instruments of $192.8 million in the twelve month Reporting Period. The unrealized non-cash losses on financial instruments recorded in the Reporting Periods were primarily due to the decrease in the fair value of the Corporation's financial instruments to a liability position of $132.6 million at December 31, 2019. The fair value of the liability is the estimated discounted value to settle outstanding financial contracts at a point in time. The decrease in the fair value of Birchcliff's financial instruments during the Reporting Periods was primarily attributable to: (i) the decrease in the forward basis spread between NYMEX HH and AECO 7A for contracts outstanding at December 31, 2019 as compared to the fair value previously assessed at September 30, 2019 and December 31, 2018; and (ii) the settlement of financial NYMEX HH/AECO basis swap contracts in the Reporting Periods.

The unrealized gains and losses on financial instruments can fluctuate materially from period-to-period due to movement in the forward strip commodity prices and interest rates. Unrealized gains and losses on financial instruments do not impact adjusted funds flow and may differ materially from the actual gains or losses realized on the eventual cash settlement of financial contracts in the period.

Royalties

The following table sets forth Birchcliff's royalty expense for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
	2019	2018	2019	2018
Royalty expense *($000s)*[1]	8,263	6,763	27,452	38,306
Royalty expense *($/boe)*	1.15	0.96	0.96	1.36
Effective royalty rate *(%)*[2]	5%	4%	4%	6%

(1) Royalties are paid primarily to the Government of Alberta.

(2) The effective royalty rate is calculated by dividing the aggregate royalties into P&NG sales for the period.

Birchcliff's per unit royalties increased by 20% and decreased by 29% from the three and twelve month Comparable Prior Periods, respectively, primarily due to the fluctuation in the average realized light oil, condensate and NGLs sales prices and the effect these prices have on the sliding scale royalty calculation. See *"Discussion of Operations – Operating Netbacks"* in this MD&A for details on royalties for the Corporation's Pouce Coupe and Gordondale assets.

Operating Expense

The following table sets forth a breakdown of Birchcliff's operating expense for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	2019	2018	2019	2018
Field operating expense	22,903	25,705	91,679	102,099
Recoveries	(926)	(1,028)	(3,776)	(2,995)
Operating expense	**21,977**	**24,677**	**87,903**	**99,104**
Operating expense per boe	**$3.06**	**$3.51**	**$3.09**	**$3.52**

On a per unit basis, operating expense decreased by 13% and 12% from the three and twelve month Comparable Prior Periods, respectively, primarily due to: (i) a step-down reduction in natural gas processing fees which became effective January 1, 2019 at the Gordondale Gas Plant; (ii) reduced take-or-pay processing commitments in Pouce Coupe beginning in November 2018 which resulted in natural gas being redirected from third-party facilities to the Pouce Coupe Gas Plant; and (iii) increased operating efficiencies resulting from expanded liquids-handling capabilities in Pouce Coupe. See *"Discussion of Operations – Operating Netbacks"* in this MD&A for details on operating expense for the Pouce Coupe assets and Gordondale assets.

Transportation and Other

The following table sets forth Birchcliff's transportation and other expense for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	**2019**	**2018**	**2019**	**2018**
Natural gas transportation	25,433	21,801	96,044	78,878
Liquids transportation	6,806	6,213	26,830	21,011
Fractionation	1,084	521	4,761	3,533
Other fees	30	32	128	125
Transportation	33,353	28,567	127,763	103,547
Transportation per boe	$4.65	$4.06	$4.49	$3.68
Marketing purchases[(1)]	7,196	-	18,503	-
Marketing revenue[(1)]	(8,271)	-	(20,131)	-
Marketing gain[(1)]	(1,075)	-	(1,628)	-
Marketing gain per boe	($0.14)	-	($0.05)	-
Transportation and other expense	32,278	28,567	126,135	103,547
Transportation and other expense per boe	**$4.51**	**$4.07**	**$4.44**	**$3.68**

(1) Marketing purchases and marketing revenue represent the volumes purchased and sold to third parties, which are recorded on a gross basis for financial statement presentation purposes. Birchcliff enters into certain marketing purchase and sales arrangements to reduce its take-or-pay fractionation fees associated with third-party commitments. Any gains or losses from the purchase and sale of third-party products relate to the commodity price differential.

On a per unit basis, transportation expense increased by 15% and 22% from the three and twelve month Comparable Prior Periods. The increases were primarily due to: (i) an additional 30,000 GJ/d and 25,000 GJ/d of firm service transportation to Dawn that became available on November 1, 2018 and November 1, 2019, respectively; (ii) additional firm service transportation associated with Birchcliff's commitments on the NGTL system to the AECO sales trading hub; and (iii) increased total liquids production in the Reporting Periods. See "*Discussion of Operations – Operating Netbacks*" in this MD&A for details on transportation and other expense for the Pouce Coupe assets and Gordondale assets.

Operating Netback

The following table sets forth Birchcliff's average production and operating netback for the Corporation's Pouce Coupe assets, Gordondale assets and on a corporate basis for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
	2019	**2018**	**2019**	**2018**
Pouce Coupe assets:				
Average production:				
Condensate *(bbls/d)*	3,820	2,892	3,963	2,723
NGLs *(bbls/d)*	1,168	599	986	219
Natural gas *(Mcf/d)*	269,314	266,774	274,009	276,004
Total *(boe/d)*	**49,873**	**47,953**	**50,616**	**48,943**
% of corporate production	64%	63%	65%	63%
Liquids[1]-to-gas ratio *(bbls/MMcf)*	18.5	13.1	18.1	10.7
Netback and cost ($/boe):				
Petroleum and natural gas revenue[2]	21.02	20.93	19.19	18.22
Royalty expense	(0.78)	(0.33)	(0.47)	(0.29)
Operating expense	(2.22)	(2.29)	(2.07)	(2.28)
Transportation and other expense	(4.71)	(4.16)	(4.58)	(3.59)
Operating netback	**13.31**	**14.15**	**12.07**	**12.06**
Gordondale assets:				
Average production:				
Light oil *(bbls/d)*	4,271	4,777	4,686	4,852
Condensate *(bbls/d)*	1,245	1,317	1,235	1,355
NGLs *(bbls/d)*	6,646	6,215	6,278	5,903
Natural gas *(Mcf/d)*	95,534	96,818	90,947	95,508
Total *(boe/d)*	**28,085**	**28,446**	**27,357**	**28,028**
% of corporate production	36%	37%	35%	36%
Liquids[1]-to-gas ratio *(bbls/MMcf)*	127.3	127.1	134.1	126.8
Netback and cost ($/boe):				
Petroleum and natural gas revenue[2]	26.43	23.83	25.94	28.85
Royalty expense	(1.81)	(2.04)	(1.88)	(3.23)
Operating expense	(4.54)	(5.55)	(4.93)	(5.63)
Transportation and other expense	(4.13)	(3.91)	(4.18)	(3.84)
Operating netback	**15.95**	**12.33**	**14.95**	**16.15**
Total Corporate:				
Average production:				
Light oil *(bbls/d)*	4,435	4,788	4,742	4,873
Condensate *(bbls/d)*	4,906	4,207	5,145	4,072
NGLs *(bbls/d)*	7,814	6,814	7,264	6,123
Natural gas *(Mcf/d)*	364,847	363,596	364,958	372,170
Total *(boe/d)*[3]	**77,962**	**76,408**	**77,977**	**77,096**
Liquids[1]-to-gas ratio *(bbls/MMcf)*	47.0	43.5	47.0	40.5
Netback and cost ($/boe):				
Petroleum and natural gas revenue[2]	22.97	22.01	21.56	22.08
Royalty expense	(1.15)	(0.96)	(0.96)	(1.36)
Operating expense	(3.06)	(3.51)	(3.09)	(3.52)
Transportation and other expense	(4.51)	(4.07)	(4.44)	(3.68)
Operating netback	**14.25**	**13.47**	**13.07**	**13.52**

(1) Liquids consists of NGLs, including condensate.

(2) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.

(3) Includes other minor oil and natural gas properties which were not individually significant.

Pouce Coupe Montney/Doig Resource Play

Birchcliff's average production from its Pouce Coupe assets was 49,873 boe/d in the three month Reporting Period and 50,616 boe/d in the twelve month Reporting Period, a 4% increase and 3% increase, respectively, from the Comparable Prior Periods. The increases were primarily due to the incremental production from horizontal condensate-rich natural gas wells that were brought on production in Pouce Coupe, partially offset by natural production declines.

Birchcliff's liquids-to-gas ratio for the Pouce Coupe assets was 18.5 bbls/MMcf in the three month Reporting Period and 18.1 bbls/MMcf in the twelve month Reporting Period, a 41% increase and 69% increase, respectively, from the Comparable Prior Periods. The increases were primarily due to the specifically targeted condensate-rich natural gas wells in Pouce Coupe and the re-configuration of Phases V and VI of the Pouce Coupe Gas Plant which provided for shallow-cut capability, allowing Birchcliff to extract C3+ from the natural gas stream.

Operating expense for the Pouce Coupe assets was $2.22/boe in the three month Reporting Period and $2.07/boe in the twelve month Reporting Period, a 3% decrease and 9% decrease, respectively, from the Comparable Prior Periods. The decreases were primarily due to reduced take-or-pay processing commitments in Pouce Coupe beginning in November 2018 that resulted in natural gas being redirected from third-party facilities to the Pouce Coupe Gas Plant and increased operating efficiencies from improved liquids-handling capabilities in the Pouce Coupe area.

Transportation and other expense for the Pouce Coupe assets was $4.71/boe in the three month Reporting Period and $4.58/boe in the twelve month Reporting Period, a 13% increase and 28% increase, respectively, from the Comparable Prior Periods. The increases were primarily due to additional firm service transportation to AECO and Dawn sales trading hubs.

Birchcliff's operating netback for the Pouce Coupe assets was $13.31/boe in the three month Reporting Period, a 6% decrease from the three month Comparable Prior Period. Birchcliff's operating netback for the Pouce Coupe assets was $12.07/boe in the twelve month Reporting Period and remained relatively unchanged from the twelve month Comparable Prior Period. The decrease in the three month Reporting Period was primarily due to higher per boe royalty and transportation and other expenses, partially offset by lower per boe operating expense. Operating netback in the twelve month Reporting Period was impacted by a higher average realized sales price received for Birchcliff's Pouce Coupe production and lower per boe operating expense, offset by higher per boe royalty and transportation and other expenses.

Gordondale Montney/Doig Resource Play

Birchcliff's average production from its Gordondale assets was 28,085 boe/d in the three month Reporting Period and 27,357 boe/d in the twelve month Reporting Period, a 1% decrease and 2% decrease, respectively, from the Comparable Prior Periods. The decreases were primarily due to natural production declines, partially offset by the incremental production from new horizontal oil wells that were brought on production in Gordondale.

Birchcliff's liquids-to-gas ratio for the Gordondale assets was 127.3 bbls/MMcf in the three month Reporting Period and remained relatively unchanged from the three month Comparable Prior Period. Birchcliff's liquids-to-gas ratio for the Gordondale assets was 134.1 bbls/MMcf in the twelve month Reporting Period, a 6% increase from the twelve month Comparable Prior Period. The liquids-to-gas ratio in the Reporting Periods was primarily impacted by the timing of bringing new production on-stream and the successful drilling of horizontal oil wells in Gordondale.

Operating expense for the Gordondale assets was $4.54/boe in the three month Reporting Period and $4.93/boe in the twelve month Reporting Period, an 18% decrease and 12% decrease, respectively, from the Comparable Prior Periods. The decreases were primarily due to a step-down reduction in natural gas processing fees which became effective January 1, 2019 at the Gordondale Gas Plant.

Transportation and other expense for the Gordondale assets was $4.13/boe in the three month Reporting Period and $4.18/boe in the twelve month Reporting Period, a 6% increase and 9% increase, respectively, from the

Comparable Prior Periods. The increases were primarily due to additional firm service transportation to AECO and Dawn sales trading hubs.

Birchcliff's operating netback for the Gordondale assets was $15.95/boe in the three month Reporting Period and $14.95/boe in the twelve month Reporting Period, a 29% increase and 7% decrease, respectively, from the Comparable Prior Periods. The increase in the three month Reporting Period was primarily due to a higher average realized sales price received for Birchcliff's Gordondale production and lower per boe royalty and operating expenses, partially offset by higher transportation and other expense. The decrease in the twelve month Reporting Period was primarily due to a lower average realized sales price received for Birchcliff's Gordondale production and higher transportation and other expense, partially offset by lower per boe royalty and operating expenses.

Administrative Expense

The following table sets forth the components of Birchcliff's net administrative expense for the periods indicated:

	Three months ended December 31,				Twelve months ended December 31,			
	2019		2018		2019		2018	
	($000s)	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*	*($000s)*	*(%)*
Cash:								
Salaries and benefits[1]	14,561	81	11,131	75	32,335	70	28,618	68
Other[2][3]	3,440	19	3,683	25	14,057	30	13,329	32
	18,001	100	14,814	100	46,392	100	41,947	100
Operating overhead recoveries	(40)	(1)	(33)	(1)	(156)	(1)	(150)	(1)
Capitalized overhead[4]	(8,926)	(49)	(7,163)	(48)	(19,421)	(41)	(17,195)	(40)
G&A expense, net	9,035	50	7,618	51	26,815	58	24,602	59
G&A expense, net per boe	$1.26		$1.08		$0.94		$0.87	
Non-cash:								
Other compensation[5]	1,886	100	9,668	100	8,684	100	14,758	100
Capitalized compensation[4]	(1,088)	(58)	(4,175)	(43)	(4,406)	(51)	(7,061)	(48)
Other compensation, net	798	42	5,493	57	4,278	49	7,697	52
Other compensation, net per boe	$0.11		$0.78		$0.15		$0.27	
Administrative expense, net	**9,833**		**13,111**		**31,093**		**32,299**	
Administrative expense, net per boe	**$1.37**		**$1.86**		**$1.09**		**$1.14**	

(1) Includes salaries and benefits paid to officers and employees of the Corporation and retainer fees, meeting fees and benefits paid to directors of the Corporation. The increase in salaries and benefits were primarily due to additional corporate staff required to manage its core operating areas and additional employee costs.

(2) Includes costs such as rent, legal, tax, insurance, computer hardware and software and other business expenses incurred by the Corporation.

(3) Other G&A expense excludes lease payments in the Reporting Periods. As a result of Birchcliff's adoption of IFRS 16 effective January 1, 2019, approximately $0.6 million in the three month Reporting Period and $2.2 million in the twelve month Reporting Period of lease payments have been applied against the lease liability on the statements of financial position and the interest portion of lease payment is included in finance expenses as accretion. Birchcliff applied IFRS 16 using the modified retrospective approach; therefore comparative information has not been restated.

(4) Includes a portion of gross G&A expenses and other compensation directly attributable to the exploration and development activities of the Corporation, which have been capitalized.

(5) Includes $1.7 million of additional stock-based compensation expense recorded in the twelve month Reporting Period related to the amendment of the Corporation's outstanding performance warrants and includes a post-employment benefit expense of $7.8 million recorded in the Comparable Priors Periods.

The following table sets forth the Corporation's outstanding stock options for the Reporting Periods and the Comparable Prior Periods:

	Three months ended December 31,				Twelve months ended December 31,			
	2019		2018		2019		2018	
	Number	Exercise Price[2]	Number	Exercise Price[2]	Number	Exercise Price[2]	Number	Exercise Price[2]
Balance, beginning	18,532,368	$4.85	16,000,070	$5.78	15,847,570	$5.74	14,158,107	$6.88
Granted[1]	5,152,000	$2.32	140,500	$4.59	10,107,200	$2.90	4,734,900	$3.23
Exercised	-	-	(26,000)	($3.35)	(23,867)	($3.08)	(114,664)	($3.35)
Forfeited	(27,334)	($3.74)	(10,000)	($5.03)	(229,736)	($4.22)	(483,405)	($5.59)
Expired	(173,666)	($7.39)	(257,000)	($7.46)	(2,217,799)	($8.47)	(2,447,368)	($7.57)
Balance, ending	**23,483,368**	**$4.28**	**15,847,570**	**$5.74**	**23,483,368**	**$4.28**	**15,847,570**	**$5.74**

(1) Each stock option granted entitles the holder to purchase one common share at the exercise price.

(2) Exercise price is calculated on a weighted average basis.

At December 31, 2019, there were also 2,939,732 performance warrants outstanding with an exercise price of $3.00. On June 7, 2019, the Corporation's outstanding performance warrants were amended to extend the expiry date from January 31, 2020 to January 31, 2025. The Corporation recorded a non-cash stock-based compensation expense in the twelve month Reporting Period of approximately $1.3 million (net, $0.4 million of capitalization) relating to the extension.

Depletion and Depreciation Expense

Depletion and depreciation ("**D&D**") expense is a function of the estimated proved plus probable reserve additions, the F&D costs attributable to those reserves, the associated future development costs required to recover those reserves and the actual production in the relevant period. The Corporation determines its D&D expense on a field area basis. The following table sets forth Birchcliff's D&D expense for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	2019	2018	2019	2018
Depletion and depreciation expense	53,757	**51,274**	213,565	**208,868**
Depletion and depreciation expense per boe	$7.49	**$7.29**	$7.50	**$7.42**

D&D expense on an aggregate basis for the Reporting Periods was higher than the Comparable Prior Periods mainly due to an increase in production. Included in the depletion assessment at December 31, 2019 were 1,032.2 MMboe of proved plus probable reserves and $4.4 billion of future development costs required to recover those reserves as estimated by the Corporation's independent qualified reserves evaluators.

Asset Impairment Assessment

The Corporation reviews its petroleum and natural gas assets for impairment in accordance with International Accounting Standards ("**IAS**") 36 under IFRS. Birchcliff's assets are grouped into cash-generating units ("**CGU**") for the purpose of determining impairment. A CGU represents the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. In determining the Corporation's CGUs, the Corporation takes into consideration all available information, including, but not limited to: geographical proximity; geological similarities (i.e. reservoir characteristics and production profiles); degree of shared infrastructure; independent versus interdependent cash flows; operating structure; the regulatory environment; management decision-making; and overall business strategy.

The Corporation's CGUs are reviewed at each reporting date for both internal and external indicators of potential impairment. Potential CGU impairment indicators include, but are not limited to: changes to Birchcliff's business plan; deterioration in commodity prices; negative changes in the technological, economic, legal, capital or operating environment; adverse changes to the physical condition of a CGU; current expectations that a material CGU (or a significant component thereof) is more likely than not to be sold or otherwise disposed of before the end of its

previously estimated useful life; non-compliance with the agreements governing the Corporation's bank credit facilities; deterioration in the financial and operational performance of a CGU; net assets exceeding market capitalization; and significant downward revisions of estimated proved plus probable reserves of a CGU. If impairment indicators exist, an impairment test is performed by comparing a CGU's carrying value to its recoverable amount.

Birchcliff performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined that there were impairment indicators present at December 31, 2019 and December 31, 2018. Birchcliff performed an impairment test on a CGU basis and determined that the carrying value of its P&NG properties and equipment was recoverable. Birchcliff's P&NG properties and equipment were not impaired at December 31, 2019 or December 31, 2018. For further details on the methodology used in the impairment test, see the notes to the annual audited financial statements of the Corporation for the Reporting Periods.

Management has determined that the calculation of the recoverable amount is most sensitive to key assumptions regarding discount rates, commodity prices and estimated quantities of proved plus probable reserves and the future production profile of those reserves. Each of these underlying key assumptions is reviewed by management and corroborated independently to assess for reasonableness. The P&NG future prices are based on period-end commodity price forecast assumptions as included in the Corporation's independent reserves evaluation.

Finance Expense

The following table sets forth the components of the Corporation's finance expense for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	**2019**	**2018**	**2019**	**2018**
Cash:				
Interest expense[1]	5,852	7,437	25,073	27,969
Interest expense per boe[1]	$0.82	$1.06	$0.88	$0.99
Non-cash:				
Accretion[2]	963	811	3,517	3,208
Amortization of deferred financing fees	386	374	1,528	1,534
Other expenses	1,349	1,185	5,045	4,742
Other expenses per boe	$0.18	$0.17	$0.17	$0.16
Finance expense	**7,201**	**8,622**	**30,118**	**32,711**
Finance expense per boe	**$1.00**	**$1.23**	**$1.05**	**$1.15**

(1) Birchcliff's extendible revolving credit facilities (the "**Credit Facilities**") are comprised of an extendible revolving syndicated term credit facility (the "**Syndicated Credit Facility**") of $900 million and an extendible revolving working capital facility (the "**Working Capital Facility**") of $100 million. Birchcliff may draw on its Syndicated Credit Facility using CDN dollar denominated bankers' acceptances and US dollar denominated LIBOR loans. The average effective interest rate under the Syndicated Credit Facility is determined based on: (i) the market interest rate of its drawn bankers' acceptances and LIBOR loans; and (ii) Birchcliff's stamping fees. Birchcliff's stamping fees are calculated using a pricing margin grid and will change as a result of the ratio of outstanding indebtedness to the trailing four quarter EBITDA as calculated in accordance with the Corporation's agreement governing the Credit Facilities. EBITDA is defined as earnings before interest and non-cash items, including (if any) income taxes, other compensation, gains and losses on sale of assets, unrealized gains and losses on financial instruments and depletion, depreciation and amortization.

(2) Includes accretion on decommissioning obligations, lease obligations and post-employment benefit obligations.

Birchcliff's aggregate interest expense in the three and twelve month Reporting Periods decreased by 21% and 10%, respectively, from the Comparable Prior Periods. The decreases were primarily due to: (i) higher drawn US dollar denominated LIBOR loans in the Reporting Periods, which had a lower average market interest rate component compared to higher drawn CDN dollar denominated bankers' acceptances in the Comparable Prior Periods; and (ii) lower stamping fees applicable to Birchcliff's Syndicated Credit Facility in the Reporting Periods.

The following table sets forth the Corporation's effective interest rates under its Credit Facilities for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
	2019	**2018**	**2019**	**2018**
Working Capital Facility	4.7%	5.2%	4.7%	5.2%
Syndicated Credit Facility	3.6%	4.7%	4.1%	4.7%

Birchcliff's average outstanding total balance under its Credit Facilities was approximately $605.0 million and $613.0 million in the three and twelve month Reporting Periods, respectively, as compared to $620.0 million and $605.0 million in the Comparable Prior Periods, calculated as the simple average of the month-end amounts.

Other Losses

The following table sets forth the components of the Corporation's other losses for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	**2019**	**2018**	**2019**	**2018**
Loss on investment	-	-	5,549	-
Loss on sale of assets	-	1,831	-	10,192
Other losses	**-**	**1,831**	**5,549**	**10,192**
Other losses per boe	**-**	**$0.26**	**$0.19**	**$0.36**

Loss on Investment

On August 31, 2017, Birchcliff acquired securities consisting of 4,500,000 common A units in a limited partnership and 10,000,000 preferred units in a trust (collectively, the "**Securities**") at a combined value of $10.0 million. The Securities are not publicly listed and do not constitute significant investments. At December 31, 2019, the Corporation determined the Securities had a fair value of $4.4 million resulting in a recorded loss on investment of $5.6 million during the twelve month Reporting Period.

Loss on Sale of Assets

During the twelve month Comparable Prior Period, Birchcliff completed the dispositions of certain non-core miscellaneous P&NG properties and related assets and interests. The total cash consideration was $5.2 million, before customary closing adjustments. As a result of the dispositions, Birchcliff recorded a loss on sale of assets of approximately $10.2 million in the twelve month Comparable Prior Period. These dispositions were considered non-core as they represented less than 1% of both Birchcliff's production during the Reporting Periods and proved plus probable reserves at December 31, 2018 and therefore were not significant to the Corporation's financial results or operational performance.

Income Taxes

The following table sets forth the components of the Corporation's income taxes for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	**2019**	**2018**	**2019**	**2018**
Deferred tax recovery (expense)	5,228	(25,585)	37,881	(36,858)
Dividend tax expense on preferred shares	(769)	(769)	(3,075)	(3,075)
Income tax recovery (expense)	**4,459**	**(26,354)**	**34,806**	**(39,933)**
Income tax recovery (expense) per boe	**$0.61**	**($3.77)**	**$1.21**	**($1.44)**

Birchcliff's income taxes are primarily impacted by the before-tax net income or losses recorded in the respective periods. During the twelve month Reporting Period, Birchcliff recorded a $34.8 million deferred tax recovery that primarily resulted from a reduction in the provincial corporate income tax rate from 12% to 8%.

On May 28, 2019, the Government of Alberta reduced the general corporate income tax rate to 8% (from 12%) over four years. Starting July 1, 2019, the general corporate tax rate decreased to 11% (from 12%), with further 1% rate reductions every year on January 1 until the general corporate tax rate is 8% on January 1, 2022. The reduction in the provincial corporate income tax rate is considered "substantively enacted" under IFRS as of May 28, 2019 and therefore the financial impact has been accounted for in Birchcliff's financial statements for the Reporting Periods.

The Corporation's estimated income tax pools were $2.1 billion at December 31, 2019. Management expects that future taxable income will be available to utilize the accumulated tax pools. The components of the Corporation's estimated income tax pools are set forth in the table below:

($000s)	**Tax pools as at December 31, 2019**
Canadian oil and gas property expense	401,214
Canadian development expense	344,250
Canadian exploration expense	311,091
Undepreciated capital costs	326,346
Non-capital losses	641,415
SR&ED[(1)] & Investment tax credits	25,592
Financing costs and other	11,618
Estimated income tax pools[(2)]	**2,061,526**

(1) Scientific research and experimental development ("**SR&ED**") tax pools.

(2) Excludes Veracel tax pools of $39.3 million which were reassessed by the Canada Revenue Agency (the "**CRA**").

Veracel Tax Pools

Birchcliff's 2006 income tax filings were reassessed by the CRA in 2011 (the "**Reassessment**"). The Reassessment was based on the CRA's position that the tax pools available to Veracel Inc. ("**Veracel**"), prior to its amalgamation with Birchcliff, ceased to be available to Veracel after Birchcliff and Veracel amalgamated on May 31, 2005. The Veracel tax pools in dispute totalled $39.3 million. Birchcliff appealed the Reassessment to the Tax Court of Canada (the "**Trial Court**") and the trial of that appeal occurred in November 2013. On October 1, 2015, the Trial Court issued its decision (the "**Trial Decision**") and dismissed Birchcliff's appeal on the basis of the general anti-avoidance rule contained in the *Income Tax Act* (Canada). The Trial Decision was rendered by a judge based on the written record and not by the judge who conducted the trial. As a result of the Trial Decision, Birchcliff recorded a non-cash deferred income tax expense in the amount of $10.2 million in the fourth quarter of 2015.

Birchcliff appealed the Trial Decision to the Federal Court of Appeal (the "**FCA**"), which appeal was heard in January 2017. In April 2017 the FCA issued its decision and allowed the appeal and set aside the Trial Decision, based on the lack of jurisdiction by the judge who rendered the Trial Decision. In setting aside the Trial Decision, the FCA referred the matter back to the judge of the Trial Court who initially conducted the trial in 2013 to render a judgment. The judge of the Trial Court rendered a decision in November 2017 and dismissed the Corporation's appeal. The Corporation appealed that decision to the FCA, which appeal was heard on December 10, 2018. The FCA rendered a decision in May 2019 dismissing the Corporation's appeal. The Corporation filed an application for leave to appeal to the Supreme Court of Canada, which was denied on November 14, 2019 and as a result there was no further impact to the Corporation's financial statements.

CAPITAL EXPENDITURES

The following table sets forth a summary of the Corporation's capital expenditures for the periods indicated:

	Three months ended December 31,		**Twelve months ended December 31,**	
($000s)	**2019**	**2018**	**2019**	**2018**
Land	962	390	2,947	2,226
Seismic	761	332	4,848	1,310
Workovers	570	1,804	6,609	6,281
Drilling and completions	40,763	37,888	178,468	200,782
Well equipment and facilities	13,744	11,907	63,523	89,055
Finding and development capital	56,800	52,321	256,395	299,654
Acquisitions	800	-	41,407	1,524
Dispositions	-	(9)	-	(5,184)
Finding, development and acquisition capital	57,600	52,312	297,802	295,994
Administrative assets	536	574	2,444	2,024
Total capital expenditures	**58,136**	**52,886**	**300,246**	**298,018**

During the three month Reporting Period, Birchcliff had total capital expenditures of $58.1 million which included approximately $28.7 million (49%) on the drilling and completion of Montney horizontal wells in Pouce Coupe, $12.0 million (21%) on the drilling and completion of Montney horizontal wells in Gordondale and $5.0 million (9%) on the Inlet Liquids-Handling Facility at the Pouce Coupe Gas Plant.

During the twelve month Reporting Period, Birchcliff had total capital expenditures of $300.2 million which included approximately $95.8 million (32%) on the drilling and completion of Montney horizontal wells in Pouce Coupe, $82.3 million (27%) on the drilling and completion of Montney horizontal wells in Gordondale, $39.0 million (13%) on the Acquisition and $10.2 million (3%) on the Inlet Liquids-Handling Facility.

The remaining capital during the Reporting Periods was primarily spent on land, seismic, infrastructure expansion, gas gathering and optimization projects in the Montney/Doig Resource Play and other oil and gas development projects in the Peace River Arch.

During the three month Reporting Period, Birchcliff drilled a total of 7 (7.0 net) wells, consisting of 2 (2.0 net) Montney horizontal oil wells in Gordondale and 5 (5.0 net) Montney horizontal natural gas wells in Pouce Coupe. During the twelve month Reporting Period, Birchcliff drilled a total of 30 (30.0 net) wells, consisting of 14 (14.0 net) Montney horizontal oil wells in Gordondale and 16 (16.0 net) Montney horizontal natural gas wells in Pouce Coupe.

CAPITAL RESOURCES AND LIQUIDITY

Liquidity and Capital Resources

The capital intensive nature of Birchcliff's operations requires it to maintain adequate sources of liquidity to fund its short-term and long-term financial obligations. Birchcliff's capital resources primarily consist of adjusted funds flow and available Credit Facilities. The Corporation believes that its internally generated adjusted funds flow and its existing undrawn Credit Facilities will provide sufficient liquidity to fund its working capital requirements, capital expenditure programs and dividend payments for the foreseeable future. In addition, the Corporation may from time to time seek additional capital in the form of debt and/or equity or dispose of non-core properties to fund its ongoing capital expenditure programs and protect its statements of financial position. There is no certainty that any of these additional sources of capital will be available if required. See *"Advisories – Forward-Looking Statements"* in this MD&A.

The following table sets forth a summary of the Corporation's capital resources for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	**2019**	**2018**	**2019**	**2018**
Adjusted funds flow	80,941	81,517	334,504	312,922
Changes in non-cash working capital from operations	5,058	10,838	(5,153)	12,591
Decommissioning expenditures	(442)	(155)	(2,285)	(1,079)
Exercise of stock options	-	87	73	384
Financing fees paid on credit facilities	-	-	(990)	(950)
Lease payments	(561)	-	(2,172)	-
Dividends paid	(8,903)	(8,570)	(35,610)	(34,273)
Deposit on acquisition	-	(3,900)	-	(3,900)
Net change in revolving term credit facilities	(29,761)	(30,149)	3,683	17,868
Changes in non-cash working capital from investing	11,804	3,218	4,313	(5,540)
Capital resources	**58,136**	**52,886**	**296,363**	**298,023**

Birchcliff's adjusted funds flow depends on a number of factors, including, but not limited to, commodity prices and market diversification initiatives, production and sales volumes, royalties, operating and transportation expenses and foreign exchange rates. The Corporation closely monitors commodity prices and its capital spending and has taken proactive measures to ensure liquidity and financial flexibility in the current environment. As discussed in further detail above under the heading *"2020 Outlook"*, Birchcliff's Board of Directors has approved a reduced capital budget for 2020 in the amount of $275 million to $295 million.

Birchcliff's market diversification initiatives have increased its exposure to various natural gas sales trading hubs in North America. Birchcliff has agreements for the firm service transportation of an aggregate of 175,000 GJ/d of natural gas on TCPL's Canadian Mainline whereby natural gas is transported to the Dawn sales trading hub in Southern Ontario. Birchcliff also has various financial and physical risk management contracts in place to 2025 with exposure to NYMEX HH pricing. See *"Discussion of Operations – Petroleum and Natural Gas Revenue"* and *"Discussion of Operations – Risk Management"* in this MD&A.

In addition to its adjusted funds flow, the Corporation's other main source of liquidity is its Credit Facilities. At December 31, 2019, the Corporation's Credit Facilities limit was $1.0 billion with maturity dates of May 11, 2022. The aggregate principal amount drawn under the Credit Facilities at December 31, 2019 was $615.7 million, leaving $384.3 million available to fund future obligations.

Working Capital

The Corporation's adjusted working capital deficit increased to $23.4 million at December 31, 2019 from a $21.2 million deficit at December 31, 2018. The deficit at December 31, 2019 was largely comprised of costs incurred from the drilling and completion of new wells in Pouce Coupe and Gordondale.

At December 31, 2019, the major component of Birchcliff's current assets was revenue to be received from its marketers in respect of December 2019 production (87%), which was subsequently received in January 2020. Current liabilities largely consisted of trade payables (50%) and accrued capital and operating expense (13%). Birchcliff monitors the financial strength of its marketers. At this time, Birchcliff expects that such counterparties will be able to meet their financial obligations.

Adjusted working capital includes items expected from normal operations, including trade receivables and payables, accruals, deposits and prepaid expenses and excludes the current portion of the fair value of financial instruments and capital securities. The Corporation's adjusted working capital varies from quarter to quarter primarily due to the timing of such items, as well as the size and timing of the Corporation's capital expenditures, volatility in commodity prices and changes in revenue, among other things. Birchcliff manages its adjusted working capital deficit using adjusted funds flow and advances under its Credit Facilities. The adjusted working capital deficit position does not reduce the amount available under the Credit Facilities.

Bank Debt

Management of debt levels continues to be a priority for Birchcliff given the current volatility in the commodity price environment. Total debt, including the adjusted working capital deficit, was $632.6 million at December 31, 2019 as compared to $626.5 million at December 31, 2018. Total debt increased from December 31, 2018 primarily due to adjusted funds flow being less than the aggregate of total capital expenditures and dividends paid in the twelve month Reporting Period.

The following table sets forth the Corporation's unused Credit Facilities for the periods indicated:

As at, *($000s)*	**December 31, 2019**	**December 31, 2018**
Maximum borrowing base limit[1]*:*		
Revolving term credit facilities	1,000,000	950,000
Principal amount utilized:		
Drawn revolving term credit facilities	(611,483)	(608,821)
Outstanding letters of credit[2]	(4,185)	(17,205)
	(615,668)	(626,026)
Unused credit	**384,332**	**323,974**
% unused credit	**38%**	**34%**

(1) Effective May 11, 2019, the borrowing base limit under the Credit Facilities was increased to $1.0 billion from $950.0 million. The Credit Facilities are subject to semi-annual reviews of the borrowing base limit by Birchcliff's syndicate of lenders, which limit is directly impacted by the value of Birchcliff's oil and natural gas reserves. In addition, pursuant to the terms of the credit agreement governing the Credit Facilities, the borrowing base of the Credit Facilities may be redetermined in certain other circumstances, including in the event that the Corporation's liability management rating ("**LMR**") is less than 2.0. Birchcliff's LMR as at December 31, 2019 was 18.7. The Credit Facilities do not contain any financial maintenance covenants. See *"Risk Factors and Risk Management – Credit Facilities"*.

(2) Letters of credit are issued to various service providers. The letters of credit reduce the amount available under the Working Capital Facility.

Contractual Obligations and Commitments

The Corporation enters into various contractual obligations and commitments in the normal course of operations. The following table lists Birchcliff's estimated material contractual obligations and commitments at December 31, 2019:

($000s)	**2020**	**2021**	**2022-2024**	**Thereafter**
Accounts payable and accrued liabilities	92,607	-	-	-
Drawn revolving term credit facilities	-	-	611,483	-
Firm transportation and fractionation[1]	127,079	135,252	363,954	294,124
Natural gas processing[2]	17,202	17,155	51,512	137,334
Operating commitments[3]	2,260	2,260	6,780	6,968
Capital commitments[4]	19,600	-	-	-
Lease payments	2,710	3,008	7,791	8,821
Capital securities[5]	50,000	-	-	-
Estimated contractual obligations[6]	**311,458**	**157,675**	**1,041,520**	**447,247**

(1) Includes firm transportation service arrangements and fractionation commitments with third parties.

(2) Includes natural gas processing commitments at third-party facilities.

(3) Includes variable operating components associated with Birchcliff's head office premises.

(4) Primarily includes capital components associated with the construction of Birchcliff's Inlet Liquids-Handling Facility.

(5) Birchcliff has 2,000,000 Series C Preferred Shares outstanding at December 31, 2019, which are redeemable by their holders at $25.00 per share. For further details, see the annual audited financial statements of the Corporation and related notes for the Reporting Periods.

(6) Contractual obligations and commitments that are not material to Birchcliff are excluded from the above table. The Corporation's decommissioning obligations are excluded from the table as these obligations arose from a regulatory requirement rather than from a contractual arrangement. Birchcliff estimates the total undiscounted cash flow to settle its decommissioning obligations on its wells and facilities at December 31, 2019 to be approximately $226.7 million and are estimated to be incurred as follows: 2020 - $3.0 million, 2021 – $3.0 million and $220.7 million thereafter. The estimate for determining the undiscounted decommissioning obligations requires significant assumptions on both the abandonment cost and timing of the decommissioning and therefore the actual obligation may differ materially.

OFF-BALANCE SHEET TRANSACTIONS

The Corporation has certain arrangements, all of which are reflected in the contractual obligations and commitments table above, which were entered into in the normal course of operations.

OUTSTANDING SHARE INFORMATION

At March 11, 2020, Birchcliff had common shares, Series A Preferred Shares and Series C Preferred Shares that were outstanding. Birchcliff's common shares are listed on the TSX under the symbol "BIR". Birchcliff's Series A Preferred Shares and Series C Preferred Shares are individually listed on the TSX under the symbols "BIR.PR.A" and "BIR.PR.C", respectively.

The following table sets forth the common shares issued by the Corporation:

	Common Shares
Balance at December 31, 2018	265,911,362
Exercise of options	23,867
Balance at December 31, 2019 and March 11, 2020	**265,935,229**

At March 11, 2020, the Corporation had the following securities outstanding: 265,935,229 common shares; 2,000,000 Series A Preferred Shares; 2,000,000 Series C Preferred Shares; 21,177,001 stock options to purchase an equivalent number of common shares; and 2,939,732 performance warrants to purchase an equivalent number of common shares.

Dividends

The following table sets forth the dividend distributions by the Corporation for each class of shares for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
	2019	**2018**	**2019**	**2018**
Common shares:				
Dividend distribution *($000s)*	6,981	6,648	27,923	26,586
Per common share *($)*	0.0263	0.0250	0.1050	0.1000
Preferred shares - Series A:				
Series A dividend distribution *($000s)*	1,047	1,047	4,187	4,187
Per Series A preferred share *($)*	0.5234	0.5234	2.0935	2.0935
Preferred shares - Series C:				
Series C dividend distribution *($000s)*	875	875	3,500	3,500
Per Series C preferred share *($)*	0.4375	0.4375	1.7500	1.7500

All dividends have been designated as "eligible dividends" for the purposes of the *Income Tax Act* (Canada).

Normal Course Issuer Bid

On November 19, 2019, Birchcliff announced that the TSX had accepted the Corporation's notice of intention to make a normal course issuer bid (the "**NCIB**"). Pursuant to the NCIB, Birchcliff may purchase up to 13,296,761 of its outstanding common shares. The total number of common shares that Birchcliff is permitted to purchase is subject to a daily purchase limit of 309,858 common shares; provided, however, that the Corporation may make one block purchase per calendar week which exceeds the daily purchase restriction. The NCIB commenced on November 25, 2019 and will terminate on November 24, 2020, or such earlier time as the NCIB is completed or is terminated at the option of Birchcliff. Purchases under the NCIB will be effected through the facilities of the TSX and/or Canadian alternative trading systems at the prevailing market price at the time of such transaction. All common shares purchased under the NCIB will be cancelled. As at the date of this MD&A, Birchcliff has not purchased any common shares pursuant to the NCIB.

A security holder of the Corporation may obtain, for no charge, a copy of the notice in respect of the NCIB filed with the TSX by contacting the Corporation at 403-261-6401.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth a summary of the Corporation's quarterly results for the eight most recently completed quarters:

Quarter ending,	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sep. 30, 2018	Jun. 30, 2018	Mar. 31, 2018
Average production *(boe/d)*	77,962	80,548	78,453	74,884	76,408	79,331	76,296	76,323
Average realized light oil sales price *($/bbl)*[(1)]	67.58	67.15	72.25	66.08	41.39	80.16	79.55	71.92
Average realized condensate sales price *($/bbl)*[(1)]	68.80	65.94	71.69	65.45	55.99	84.10	87.52	83.00
Average realized NGLs sales price *($/bbl)*[(1)]	16.62	9.75	11.13	17.71	21.60	23.39	21.94	25.12
Average realized natural gas sales price *($/Mcf)*[(1)]	2.81	1.71	1.95	3.55	3.03	2.06	2.01	2.72
Average realized sales price *($/boe)*	22.97	17.62	19.59	26.45	22.01	21.45	21.68	23.22
P&NG revenue *($000s)*[(1)]	164,759	130,588	139,857	178,355	154,720	156,609	150,561	159,531
Operating expense *($/boe)*	3.06	2.75	3.17	3.40	3.51	3.45	3.36	3.78
F&D capital expenditures *($000s)*	57,600	40,192	67,937	91,466	52,321	44,984	69,826	132,602
Total capital expenditures *($000s)*	58,136	41,621	68,532	131,958	52,886	45,524	66,464	133,144
Cash flow from operating activities *($000s)*	85,557	48,908	97,857	94,744	92,200	68,556	71,825	91,853
Adjusted funds flow *($000s)*	80,941	62,958	73,957	116,648	81,517	75,378	72,369	83,658
Per common share – basic *($)*	0.30	0.24	0.28	0.44	0.31	0.28	0.27	0.31
Per common share – diluted *($)*	0.30	0.24	0.28	0.44	0.30	0.28	0.27	0.31
Free funds flow *($000s)*	24,141	22,766	6,020	25,182	29,196	30,394	2,543	(48,944)
Net income (loss) *($000s)*	(17,937)	(45,843)	(8,458)	16,846	71,947	7,703	7,437	15,125
Net income (loss) to common shareholders *($000s)*[(2)]	(18,984)	(46,889)	(9,505)	15,799	70,900	6,657	6,390	14,078
Per common share – basic *($)*	(0.07)	(0.18)	(0.04)	0.06	0.27	0.03	0.02	0.05
Per common share – diluted *($)*	(0.07)	(0.18)	(0.04)	0.06	0.27	0.02	0.02	0.05
Total assets *($ million)*	2,817	2,822	2,840	2,860	2,763	2,707	2,715	2,697
Long-term bank debt *($000s)*	609,177	638,631	622,282	611,911	605,267	635,120	617,291	573,935
Total debt *($000s)*	632,582	644,407	654,709	626,454	641,484	661,409	657,732	598,193
Dividends on common shares *($000s)*	6,981	6,981	6,981	6,980	6,648	6,647	6,646	6,645
Dividends on pref. shares – Series A *($000s)*	1,047	1,046	1,047	1,047	1,047	1,046	1,047	1,047
Dividends on pref. shares – Series C *($000s)*	875	875	875	875	875	875	875	875
Pref. shares outstanding – Series A *(000s)*	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Pref. shares outstanding – Series C *(000s)*	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Common shares outstanding *(000s)*								
Basic	265,935	265,935	265,935	265,924	265,911	265,885	265,845	265,805
Diluted	292,358	287,407	287,381	287,480	284,699	285,825	285,253	285,692
Wtd. avg. common shares outstanding *(000s)*								
Basic	265,935	265,935	265,933	265,914	265,910	265,877	265,820	265,797
Diluted	265,935	265,935	265,933	266,382	267,288	268,605	267,773	266,179

(1) Excludes the effects of financial instruments but includes the effects of physical delivery contracts.

(2) Reduced for the Series A Preferred Share dividends paid in the period.

Average daily production volumes for the 2018 and 2019 quarters were impacted primarily by Birchcliff's successful drilling of new horizontal wells brought on production in Pouce Coupe and Gordondale, production curtailments due to temporary restrictions in pipeline and compressor station capacity on the NGTL system and natural production declines during those periods.

Quarterly variances in revenue, adjusted funds flow and net income (loss) are primarily due to fluctuations in commodity prices and production volumes. Oil and gas revenue and adjusted funds flow in the last eight quarters were largely impacted by quarterly production and the average realized sales price received for Birchcliff's production. Over the last eight quarters, Birchcliff's adjusted funds flow was also impacted by realized gains and losses on the settlement of financial instruments and lower trending operating expenses primarily due to reduced third-party processing fees, the addition of Phase VI of the Pouce Coupe Gas Plant and higher trending transportation and other expense primarily due to added market diversification initiatives.

Birchcliff's net income in the fourth quarter of 2018 included an unrealized mark-to-market gain on financial instruments of $77.4 million. Birchcliff's net income (loss) in the four quarters of 2019 was primarily impacted by unrealized mark-to-market before-tax losses on financial instruments of $38.9 million in Q1 2019, $46.4 million in Q2 2019, $60.9 million in Q3 2019 and $46.6 million in Q4 2019. Net income or loss in the last eight quarters was also impacted by adjusted funds flow and certain non-cash adjustments, including depletion expense and gains and losses on the sale of non-core assets recognized in those periods.

The Corporation's F&D and total capital expenditures fluctuate quarter-to-quarter based on the outlook in commodity prices and market conditions, the timing of drilling and completions operations and the timing of acquisitions and dispositions. Quarterly variances in long-term debt and total debt are primarily due to fluctuations in adjusted funds flow and the amount and timing of capital expenditures (including acquisitions and dispositions) and dividends paid.

Quarterly variances in free funds flow are primarily due to fluctuations in adjusted funds flow and F&D capital expenditures.

POTENTIAL TRANSACTIONS

Within its focus area, the Corporation is continually reviewing potential asset acquisitions and dispositions and corporate mergers and acquisitions for the purpose of determining whether any such potential transaction is of interest to the Corporation, as well as the terms on which such a potential transaction would be available. As a result, the Corporation may from time to time be involved in discussions or negotiations with other parties or their agents in respect of potential asset acquisitions and dispositions and corporate merger and acquisition opportunities.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

The Corporation's Chief Executive Officer and Chief Financial Officer (the "**Certifying Officers**") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("**DC&P**"), as defined in National Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings* ("**NI 52-109**"), to provide reasonable assurance that: (i) material information relating to the Corporation is made known to the Certifying Officers by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by the Corporation under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's DC&P at December 31, 2019 and have concluded that the Corporation's DC&P were effective at December 31, 2019.

While the Certifying Officers believe that the Corporation's DC&P provide a reasonable level of assurance and are effective, they do not expect that the DC&P will prevent all errors and fraud. A control system, no matter how well conceived, maintained and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met.

Internal Control over Financial Reporting

The Certifying Officers have designed, or caused to be designed under their supervision, internal control over financial reporting ("**ICFR**"), as defined in NI 52-109, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the generally accepted accounting principles applicable to the Corporation. The control framework the Certifying Officers used to design the Corporation's ICFR is *Internal Control – Integrated Framework (2013)* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's ICFR at December 31, 2019 and have concluded that the Corporation's ICFR was effective at December 31, 2019. There were no changes in the Corporation's ICFR that occurred during the period beginning on October 1, 2019 and ended on December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

While the Certifying Officers believe that the Corporation's ICFR provides a reasonable level of assurance and is effective, they do not expect that the ICFR will prevent all errors and fraud. A control system, no matter how well conceived, maintained and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met.

CRITICAL ACCOUNTING ESTIMATES

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical Judgments in Applying Accounting Policies

The following are the critical judgments that management has made in the process of applying the Corporation's accounting policies and that have the most significant effect on the amounts recognized in these financial statements:

Identification of Cash-Generating Units

Birchcliff's assets are required to be aggregated into CGUs for the purpose of calculating impairment based on their ability to generate largely independent cash inflows. CGUs have been determined based on similar geological structure, shared infrastructure, geographical proximity, operating structure, commodity type and similar exposures to market risks. By their nature, these assumptions are subject to management's judgment and may impact the carrying value of the Corporation's assets in future periods.

Identification of Impairment Indicators

IFRS requires Birchcliff to assess, at each reporting date, whether there are any indicators that its petroleum and natural gas assets may be impaired. Birchcliff is required to consider information from both external sources (such as negative downturn in commodity prices, significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in reserves, significant adverse effect on the financial and operational performance of a CGU, evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management's judgment.

Tax Uncertainties

IFRS requires Birchcliff, at each reporting date, to make certain judgments on uncertain tax positions by relevant tax authorities. Judgments include determining whether the Corporation will "more likely than not" be successful in defending its tax positions by considering information from relevant tax interpretations and tax laws in Canada. As such, this recognition threshold is subject to management's judgment and may impact the carrying value of the Corporation's deferred tax assets and liabilities at the end of the reporting period.

Lease Obligation

IFRS requires Birchcliff to make certain judgements in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities within the next financial year:

Reserves

Reported recoverable quantities of proved and probable reserves requires estimation regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and

production, transportation and other costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Corporation's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from Birchcliff's petroleum and natural gas interests are independently evaluated by reserve engineers at least annually.

The Corporation's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and NGLs which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proved and probable if producibility is supported by either production or conclusive formation tests. Birchcliff's oil and gas reserves are determined in accordance with the standards contained in NI 51-101 and the *Canadian Oil and Gas Evaluation Handbook* (the "**COGE Handbook**").

Share-Based Payments

All equity-settled, share-based awards issued by the Corporation are fair valued using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

Decommissioning Obligations

The Corporation estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires an estimate regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these risk-free cash flows.

Post-Employment Benefit Obligation

The Corporation estimates the post-employment benefit obligation at the end of each reporting period. In most instances, the obligation occurs many years into the future. The Corporation uses estimates related to the initial measurement of the obligation for eligible employees including expected age of employee retirement, employee turnover, probability of early retirement, discount rate and inflation rate on salary and benefits. From time to time, these estimates may change causing the obligation recorded by the Corporation to change.

Lease Obligation

Lease obligations are estimated using the rate implicit in the lease, unless this rate is not readily determinable, in which case a discount rate equal to the Corporation's incremental borrowing rate is used. This rate represents the rate that the Corporation would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

Impairment of Non-Financial Assets

For the purposes of determining the extent of any impairment or its reversal, estimates must be made regarding future cash flows taking into account key assumptions including future petroleum and natural gas prices, expected

forecasted production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. Changes in the aforementioned assumptions could affect the carrying amount of the Corporation's assets, and impairment charges and reversal will affect profit or loss.

Income Taxes

Birchcliff files corporate income tax, goods and services tax and other tax returns with various provincial and federal taxation authorities in Canada. There can be differing interpretations of applicable tax laws and regulations. The resolution of these tax positions through negotiations or litigation with tax authorities can take several years to complete. The Corporation does not anticipate that there will be any material impact upon the results of its operations, financial position or liquidity.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods.

Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. Estimates of future taxable income are based on forecasted cash flows from operations. To the extent that any interpretation of tax law is challenged by the tax authorities or future cash flows and taxable income differ significantly from estimates, the ability of Birchcliff to realize the deferred tax assets recorded at the statement of financial position date could be impacted.

CHANGES IN ACCOUNTING POLICIES

Accounting Pronouncements Adopted

On January 1, 2019, Birchcliff adopted IFRS 16 to replace IAS 17: *Leases* and IFRIC 4: *Determining whether an Arrangement contains a Lease*. IFRS 16 requires the recognition of a right-of-use asset and lease liability on the statements of financial position for all leases, where Birchcliff is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. IFRS 16 allows lessors to continue with the dual classification model for recognized leases as either a finance or an operating lease. Birchcliff is the lessee in all of its lease arrangements effective January 1, 2019. The Corporation adopted IFRS 16 using the modified retrospective approach, which does not require the restatement of prior period financial information and applies the standard prospectively.

The impact of applying IFRS 16 on the financial statements in the period was affected by multiple factors and conditions, including, but not limited to, the Corporation's incremental borrowing rate at January 1, 2019, the composition of the Corporation's lease portfolio at that date, the Corporation's latest assessment of whether it will exercise any lease renewal options, and the extent to which the Corporation chose to use practical expedients and recognition exemptions.

On initial adoption, Birchcliff had the following optional practical expedients available under IFRS 16:

- Certain short-term leases and leases of low value assets that have been identified as a lease under IFRS 16 at January 1, 2019 have been excluded from recognition on the statements of financial position. Birchcliff has excluded certain low value leases such as information technology, office equipment and other minor operating and capital assets used in its operations. Short-term and low value leases are expensed in profit or loss in the period incurred.
- Certain classes of lease arrangements that transfer a separate good or service under the same contract that have been identified for recognition at January 1, 2019 can be recognized as a single lease component rather than separating between their lease and non-lease components. Birchcliff did not apply this practical expedient

on initial adoption of IFRS 16. Non-lease components such as operating costs and payment for services were separated from their lease component under the same contract and expensed in profit or loss in the period incurred.

- For leases having similar characteristics, a portfolio approach can be used by applying a single discount rate. Birchcliff has applied this practical expedient for leases having similar characteristic on recognition.

The following table details the impact of the initial adoption of IFRS 16 on the Corporation's balance sheet effective January 1, 2019:

($000s)	**Balance sheet impact**	**January 1, 2019**
Lease assets	Increase	17,311
Lease obligations	Increase	(17,311)

RISK FACTORS AND RISK MANAGEMENT

Investors should carefully consider the risk factors set out below and consider all other information contained herein and in the Corporation's other public filings before making an investment decision. The risks set out below are not an exhaustive list and should not be taken as a complete summary or description of all the risks associated with the Corporation's business and the oil and natural gas business generally. If any of the risks set out below materialize, the Corporation's business, financial condition, results of operations, prospects, cash flow and reputation may be adversely affected, which may, in turn, reduce or restrict the Corporation's ability to pay dividends and may materially affect the market price of the Corporation's securities.

Prices, Markets and Marketing

Various factors may adversely impact the prices and marketability of oil, natural gas and NGLs, affecting the Corporation's revenue, production volumes, development and exploration activities, value of its reserves, cash flow and ability to access capital

The Corporation's revenue, operating results and financial condition depend substantially on prevailing prices for oil and natural gas and the Corporation's ability to successfully market its oil and natural gas production from its properties. Numerous factors beyond the Corporation's control do, and will continue to, affect the marketability and price of oil and natural gas acquired, produced or discovered by the Corporation.

The Corporation's ability to market its oil and natural gas may depend upon its ability to acquire capacity on pipelines that deliver natural gas, crude oil and NGLs to commercial markets or contract for the delivery of crude oil by rail (see *"Risk Factors and Risk Management – Weakness and Volatility in the Oil and Natural Gas Industry"* and *"Risk Factors and Risk Management – Gathering and Processing Facilities, Pipeline Systems and Rail"*). Deliverability uncertainties include the distance the Corporation's reserves are from pipelines, railway lines, processing and storage facilities and operational problems affecting pipelines, railway lines and facilities.

Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors that are beyond the Corporation's control. These factors include, but are not limited to, the following:

- global energy supply and demand;
- the actions taken by the Organization of Petroleum Exporting Countries ("**OPEC**") and other oil and gas exporting nations;
- political conditions, instability and hostilities;
- domestic and foreign supplies of crude oil, NGLs and natural gas;
- the level of consumer demand, including demand for different qualities and types of crude oil and NGLs;

- the production and storage levels of North American natural gas and crude oil and the supply and price of imported oil;
- the ability to export oil, LNG and NGLs from North America;
- the availability, proximity and capacity of gathering, transportation, processing and/or refining facilities in regional or localized areas that may affect the realized prices for oil and natural gas;
- weather conditions;
- government regulations, including existing and proposed changes to such regulations;
- the effect of world-wide environmental regulations and energy conservation and GHG reduction measures;
- the price and availability of alternative energy supplies; and
- global and domestic economic conditions, including currency fluctuations.

Oil and natural gas prices are expected to remain volatile for the near future because of market uncertainties over the supply and demand of these commodities. Market events and conditions, including global excess oil and natural gas supply, actions taken by OPEC, sanctions against Iran and Venezuela, conflict between the United States and Iran, slowing growth in China and emerging economies, weakening global relationships, isolationist and punitive trade policies, increased shale production in the United States, sovereign debt levels, the outbreak of the novel coronavirus ("**COVID-19**") and political upheavals in various countries (including growing anti-fossil fuel sentiment) have caused significant volatility in commodity prices. Prices for crude oil and natural gas are also impacted by the availability of foreign markets and the ability to access such markets.

Any substantial and prolonged decline in the price of oil and natural gas would have an adverse effect on the carrying value of the Corporation's assets, borrowing capacity, revenue, profitability and cash flow from operations and may have a material adverse effect on the Corporation's business, financial condition, results of operations, prospects, its ability to pay dividends and ultimately on the market prices of the Corporation's securities.

A material decline in oil and natural gas prices could result in a reduction in the Corporation's net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas. The Corporation might also elect not to produce from certain wells at lower prices. In addition, any prolonged period of low crude oil or natural gas prices could result in a decision by the Corporation to suspend or slow exploration and development activities or the construction or expansion of new or existing facilities or reduce its production levels.

Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisitions and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on the value or terms of such arrangements. Price volatility also makes it difficult to budget for and project the return on potential acquisitions, divestitures or exploitation projects.

Lower commodity prices may also affect the volume and value of the Corporation's reserves, rendering certain reserves uneconomic for development. The Corporation's reserves at December 31, 2019 are estimated using forecast prices and costs. If oil and natural gas prices stay at current levels or decrease, the Corporation's reserves may be substantially reduced as economic limits of developed reserves are reached earlier and undeveloped reserves become uneconomic at such prices. Even if some reserves remain economic at lower price levels, sustained low prices may compel the Corporation to re-evaluate its development plans and reduce or eliminate various projects with marginal economics. Any decrease in the value of the Corporation's reserves may reduce the borrowing base under the Credit Facilities, which, depending on the level of the Corporation's indebtedness, could result in the Corporation having to repay a portion of its indebtedness. See *"Risk Factors and Risk Management – Credit Facilities".*

In addition, lower commodity prices restrict the Corporation's cash flow resulting in less funds from operations being available to fund the Corporation's capital expenditure programs. The Corporation's capital expenditure plans are impacted by the Corporation's cash flow. Consequently, the Corporation may not be able to replace its production with additional reserves and both the Corporation's production and reserves could be reduced on a year-over-year basis.

In addition to possibly resulting in a decrease in the value of the Corporation's economically recoverable reserves, lower commodity prices may also result in a decrease in the value of the Corporation's infrastructure and facilities, all of which could also have the effect of requiring a write-down of the carrying value of its oil and natural gas assets on its balance sheet and the recognition of an impairment charge on its income statement.

Weakness and Volatility in the Oil and Natural Gas Industry

Declining general economic, business or industry conditions may have a material adverse effect on the Corporation's results of operations, liquidity and financial condition

Concerns over global economic conditions, fluctuations in interest rates and foreign exchange rates, stock market volatility, energy costs, geopolitical issues, OPEC actions, inflation, the availability and cost of credit, the deceleration of economic growth in the People's Republic of China, trade disputes between the United States and the People's Republic of China, civil unrest in Venezuela and Iran and the outbreak of COVID-19 have contributed to increased economic uncertainty and diminished expectations for the global economy over the past few years. In addition, continued hostilities in the Middle East and the occurrence or threat of terrorist attacks, including attacks on oil infrastructure in oil producing nations, in the United States or other countries could adversely affect the economies of Canada, the United States and other countries.

Concerns about global economic growth have had a significant adverse impact on global financial markets and commodity prices. If the economic climate in Canada, the United States or abroad deteriorates, worldwide demand for petroleum products could diminish, which could impact the price at which the Corporation can sell its oil, NGLs and natural gas, affect the ability of the Corporation's vendors, suppliers and customers to continue operations and ultimately adversely impact the Corporation's results of operations, liquidity and financial condition.

These events and conditions have caused a significant reduction in the valuation of oil and natural gas companies and a decrease in the confidence in the oil and natural gas industry. These difficulties have been exacerbated in Canada by political and other actions resulting in uncertainty surrounding regulatory, tax, royalty changes and environmental regulation. In addition, difficulties encountered by midstream proponents to obtain the necessary approvals on a timely basis to build pipelines, LNG plants and other facilities to provide better access to markets for the oil and natural gas industry in Western Canada has led to additional downward price pressure on oil and natural gas produced in Western Canada. The resulting price differential between Western Canadian Select crude oil, Brent and WTI crude oil has created uncertainty and reduced confidence in the oil and natural gas industry in Western Canada.

Exploration, Development and Production Risks

The Corporation's business, operations and financial condition may be affected by the financial, operational, environmental and safety risks associated with the exploration, development and production of oil and natural gas

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at a particular point in time and the production therefrom, will decline over time as such existing reserves are produced. A future increase in the Corporation's reserves will depend on both the ability of the Corporation to explore and develop its existing properties and its ability to select and acquire suitable producing properties or prospects. There is no assurance that the Corporation

will be able to continue to find satisfactory properties to acquire or participate in the development. Moreover, management of the Corporation may determine that current markets, terms of acquisition, participation or pricing conditions make potential acquisitions or participation uneconomic. There is also no assurance that the Corporation will discover or acquire further commercial quantities of oil and natural gas. The success of the Corporation's business is highly dependent on its ability to acquire or discover new reserves in a cost-efficient manner as substantially all of the Corporation's cash flow is derived from the sale of the petroleum and natural gas reserves that it accumulates and develops. In order to remain financially viable, the Corporation must be able to replace reserves over time at a lesser cost on a per unit basis than its cash flow on a per unit basis.

Future oil and natural gas exploration may involve unprofitable efforts from dry wells or wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, completing (including hydraulic fracturing), operating and other costs. Completion of a well does not ensure a profit on the investment or recovery of drilling, completion and operating costs.

Drilling hazards, environmental damage and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. Field operating conditions include, but are not limited to, delays in obtaining governmental approvals or consents, the shutting-in of wells resulting from extreme weather conditions, insufficient storage or transportation capacity or geological and mechanical conditions. While diligent well supervision, effective maintenance operations and the development and utilization of enhanced recovery technologies can contribute to maximizing production rates over time, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, spills and other environmental hazards. These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property or the environment and cause personal injury or threaten wildlife. Particularly, the Corporation may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to the Corporation.

Oil and natural gas production operations are also subject to geological and seismic risks, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

As is standard industry practice, the Corporation is not fully insured against all risks, nor are all risks insurable. Although the Corporation maintains liability and business interruption insurance in amounts that it considers consistent with industry practice, liabilities associated with certain risks could exceed policy limits or not be covered. In either event, the Corporation could incur significant costs. See *"Risk Factors and Risk Management – Insurance"*.

Project Risks

The success of the Corporation's operations may be negatively impacted by factors outside of its control resulting in operational delays and cost overruns

The Corporation manages a variety of small and large projects in the conduct of its business. Project delays and interruptions may delay expected revenue from operations. Significant project cost overruns could make a project uneconomic. The Corporation's ability to execute projects and successfully market its oil and natural gas depends upon numerous factors beyond the Corporation's control, including:

- the availability and proximity of processing and pipeline capacity;
- the availability of storage capacity;

- the availability of, and the ability to acquire, water supplies needed for drilling and hydraulic fracturing and the Corporation's ability to dispose of water used or removed from strata at a reasonable cost and in accordance with applicable environmental regulations;
- the effects of inclement and severe weather events, including fire, drought and flooding;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- regulatory changes;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, the Corporation could be unable to execute projects on time, on budget, or at all, and may be unable to effectively market the oil and natural gas that it produces.

Gathering and Processing Facilities, Pipeline Systems and Rail

Lack of capacity and/or regulatory constraints on gathering and processing facilities, pipeline systems and railway lines may have a negative impact on the Corporation's ability to produce and sell its oil and natural gas

The Corporation delivers its products through gathering and processing facilities, pipeline systems and, in certain circumstances, by rail. The amount of oil and natural gas produced and sold by the Corporation is subject to the accessibility, availability, proximity and capacity of these gathering and processing facilities, pipeline systems and railway lines. The lack of firm pipeline capacity, production limits and limits on availability of capacity in gathering and processing facilities continues to affect the oil and natural gas industry and limits the ability to transport produced oil and natural gas to market. However, in early 2020, the Supreme Court of Canada and the Federal Court of Appeal both dismissed the challenges to the approval of the cabinet ("**Cabinet**") of the federal government of Canada (the "**Federal Government**") of the Trans Mountain Pipeline expansion, and construction on the pipeline expansion is underway. In addition, the pro-rationing of capacity on inter-provincial pipeline systems continues to affect the ability of oil and natural gas companies to export oil and natural gas and could result in the inability of the Corporation to realize the full economic potential of the produced oil or natural gas or a reduction of the price offered for the production from its properties. Unexpected shutdowns or curtailment of capacity of pipelines for maintenance or integrity work or because of actions taken by regulators could also affect the Corporation's production and operations which may have a material adverse effect on its business and financial condition. As a result, producers have considered rail lines as an alternative means of transportation. Announcements and actions taken by the Federal Government and the provincial governments of British Columbia, Alberta and Québec relating to approval of infrastructure projects may continue to intensify, leading to increased challenges to interprovincial and international infrastructure projects moving forward. On August 28, 2019, with the passing of Bill C-69, the *Canadian Energy Regulator Act* (Canada) and the *Impact Assessment Act* (Canada) came into force and the *National Energy Board Act* (Canada) and the *Canadian Environmental Assessment Act, 2012* (Canada) were repealed. In addition, the Impact Assessment Agency of Canada replaced the Canadian Environmental Assessment Agency. The impact of the new federal regulatory scheme on the oil and natural gas industry and the timing for receipt of approvals of major projects is unclear.

The Corporation's production passes through Birchcliff owned or third-party infrastructure prior to it being ready for sale. There is a risk that should this infrastructure fail and cause a significant portion of the Corporation's production to be shut-in and unable to be sold, this could have a material adverse effect on the Corporation's available cash

flow. With respect to facilities owned by third parties and over which the Corporation has no control, these facilities may discontinue or decrease operations, either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could have a material adverse effect on the Corporation's ability to process its production and deliver the same to market. Midstream and pipeline companies may take actions to maximize their return on investment which may in turn adversely affect producers and shippers, especially when combined with a regulatory framework that may not always align with the interests of particular shippers.

Further, the Corporation has certain long-term take-or-pay commitments to deliver products through third-party owned infrastructure which creates a financial liability and there can be no assurance that future volume commitments will be met which may adversely affect the Corporation's financial condition and cash flow from operations.

Uncertainty of Reserves and Resource Estimates

The Corporation's estimated reserves and resources are based on numerous factors and assumptions which may prove incorrect and which may affect the Corporation

There are numerous uncertainties inherent in estimating oil, natural gas and NGLs reserves and the future net revenue attributed to such reserves. The reserves and associated future net revenue information are estimates only. In general, estimates of economically recoverable oil, natural gas and NGLs reserves and the future net revenue therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserves recovery, the timing and amount of capital expenditures, marketability of oil, natural gas and NGLs, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For these reasons, estimates of the economically recoverable oil, natural gas and NGLs reserves attributable to any particular group of properties, the classification of such reserves based on risk of recovery and estimates of future net revenue associated with reserves prepared by different engineers, or by the same engineer at different times, may vary. The Corporation's actual production, revenue, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

The estimation of proved reserves that may be developed and produced in the future is often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas are often estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws in Canada, the Corporation's independent qualified reserves evaluators have used forecast prices and costs in estimating the reserves and future net revenue as summarized herein. Actual future net revenue will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulations or taxation and the impact of inflation on costs.

Actual production and cash flow derived from the Corporation's reserves will vary from the estimates contained in the Corporation's independent reserves evaluations and such variations could be material. The independent reserves evaluations are based in part on the assumed success of activities the Corporation intends to take in future years. The reserves and estimated future net revenue to be derived therefrom and contained in the Corporation's independent reserves evaluations will be reduced to the extent that such activities do not achieve the level of success assumed in the evaluations.

Substantial Capital and Additional Funding Requirements

The Corporation may require additional financing from time to time to fund the acquisition, exploration and development of properties and its ability to obtain such financing in a timely fashion and on acceptable terms may be negatively impacted by the current economic and global market volatility

The Corporation anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves and resources in the future. As future capital expenditures are expected to be financed out of cash generated from operations, borrowings and possible future equity sales, the Corporation's ability to do so is dependent on, among other factors:

- the overall state of the capital markets;
- the Corporation's credit rating (if applicable);
- commodity prices;
- interest rates;
- royalty rates;
- tax burden due to current and future tax laws; and
- investor appetite for investments in the energy industry and the Corporation's securities in particular.

The Corporation's cash flow from its properties may not be sufficient to fund its ongoing activities at all times and from time to time the Corporation may require additional financing. The inability of the Corporation to access sufficient capital for its operations and activities could have a material adverse effect on the Corporation's financial condition, results of operations and prospects.

Due to the conditions in the oil and natural gas industry, global economic and political conditions and the domestic landscape, the Corporation may from time to time have restricted access to capital and increased borrowing costs. The conditions in or affecting the oil and natural gas industry have negatively impacted the ability of oil and natural gas companies to access additional financing. Failure to obtain financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce its operations.

There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet the Corporation's requirements or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. To the extent that external sources of capital become limited, unavailable or available on onerous terms, the Corporation's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result. In addition, the Corporation may be required to seek additional equity financing on terms that are highly dilutive to existing shareholders. Moreover, future activities may require the Corporation to alter its capitalization significantly.

Political Uncertainty

The Corporation's business may be adversely affected by recent political and social events and decisions made in Canada, the United States, Europe and elsewhere

In the last several years, the United States and certain European countries have experienced significant political events that have cast uncertainty on global financial and economic markets. Since the 2016 U.S. presidential election, the U.S. administration has withdrawn the United States from the Trans-Pacific Partnership and the United States Congress has passed sweeping tax reforms, which, among other things, significantly reduces U.S. corporate tax rates.

This has affected the competitiveness of other jurisdictions, including Canada. In addition, the North American Free Trade between the Governments of Canada, the United States and Mexico ("**NAFTA**") has been renegotiated and on November 30, 2018, Canada, the U.S. and Mexico signed the United States-Mexico-Canada Agreement (the "**USMCA**") which will replace NAFTA once ratified by the three signatory countries. The USMCA was ratified by Mexico's Senate in June 2019 and by the United States' Senate in January 2020. In late January 2020, the Canadian Parliament tabled Bill C-4, which once proclaimed into force, will ratify the USMCA. The USMCA is expected to fully replace NAFTA two months after Bill C-4 comes into force. The U.S. administration has also taken action with respect to reduction of regulation which may also affect relative competitiveness of other jurisdictions. It is unclear exactly what other actions the U.S. administration will implement, and if implemented, how these actions may impact Canada and in particular the oil and natural gas industry. Any actions taken by the current U.S. administration may have a negative impact on the Canadian economy and on the businesses, financial condition, results of operations, prospects and the valuation of Canadian oil and natural gas companies, including the Corporation.

In addition to the political disruption in the United States, the impact of the United Kingdom's exit from the European Union remains to be determined. Some European countries have also experienced the rise of anti-establishment political parties and public protests held against open-door immigration policies, trade and globalization. Conflict and political uncertainty also continues in the Middle East. To the extent that certain political actions taken in North America, Europe and elsewhere in the world result in a marked decrease in free trade, access to personnel and freedom of movement could have an adverse effect on the Corporation's ability to market its products internationally, increase costs for goods and services required for the Corporation's business, reduce access to skilled labour and negatively impact the Corporation's business, financial condition, results of operations, prospects and the market value of its securities.

A change in federal, provincial or municipal governments in Canada may have an impact on the directions taken by such governments on matters that may impact the oil and natural gas industry, including the balance between economic development and environmental policy. Alberta elected a new government in 2019 that is supportive of the Trans Mountain Pipeline expansion project. Although the Supreme Court of Canada unanimously rejected the Government of British Columbia's proposed regulation of the transport of heavy oil products into and through British Columbia in January 2020, tensions remain high between provincial and federal governments. Continued uncertainty and delays have led to decreased investor confidence, increased capital costs and operational delays for producers and service providers operating in the jurisdictions where the Corporation's properties are located.

The Federal Government was re-elected in 2019, but in a minority position. The ability of the minority Federal Government to pass legislation will be subject to whether it is able to come to agreement with, and garner the support of, the other elected parties, most of whom are opposed to the development of the oil and natural gas industry. The minority Federal Government will also be required to rely on the support of the other elected parties to remain in power, which provides less stability and may lead to an earlier subsequent federal election. Lack of political consensus, at both the federal and provincial government level, continues to create regulatory uncertainty, the effects of which become apparent on an ongoing basis, particularly with respect to carbon pricing regimes, curtailment of crude oil production and transportation and export capacity, and may affect the business of participants in the oil and natural gas industry.

Climate Change

Climate change may pose varied and far ranging risks to the business and operations of the Corporation, both known and unknown, which may adversely affect its business, operations and financial condition

The Corporation has grouped its risks related to climate change into two main categories: physical risks and transition risks. Physical risks have been further sub-divided into acute physical risks (those that are event-driven, including increased severity of extreme weather events) and chronic physical risks (those that relate to longer-term shifts in climate patterns). Transition risks have been further sub-divided into reputational, market, regulatory and policy, legal and technology risks.

Physical Risks – Acute

Climate change has been linked to extreme weather conditions. Extreme hot and cold weather, heavy snowfall, heavy rainfall and wildfires may restrict or interfere with the Corporation's operations, increasing its costs and negatively impacting its production. Moreover, extreme weather conditions may lead to disruptions in the Corporation's ability to transport produced oil and natural gas, as well as goods and services in their supply chains. Certain of the Corporation's properties are located in locations that are proximate to forests and rivers and a wildfire or flood, respectively, may lead to significant downtime and/or damage to such assets which may affect production. At this time, the Corporation is unable to determine the extent to which climate change may lead to increased storm or weather hazards affecting its operations.

Physical Risks – Chronic

Climate change has been linked to long-term shifts in climate patterns, including sustained higher temperatures. As the level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns, long-term shifts in climate patterns pose the risk of exacerbating operational delays and other risks posed by seasonal weather patterns. See also *"Risk Factors and Risk Management – Seasonality".*

In addition, long-term shifts in weather patterns such as water scarcity, increased frequency of storms and fires and prolonged heat waves may, among other things, require the Corporation to incur greater expenditures (time and capital) to deal with the challenges posed by such changes to its premises, operations, supply chain, transport needs, and employee safety, which may in turn have a material adverse effect on the Corporation's business, operations and financial condition. In the event of water shortages or sourcing issues, the Corporation may not be able to, or will incur greater costs to, carry out hydraulic fracturing. See also *"Risk Factors and Risk Management – Hydraulic Fracturing".*

Transition Risks – Reputational

The Corporation's business, financial condition, operations or prospects may be negatively impacted as a result of any negative public opinion towards the Corporation or as a result of any negative sentiment towards, or in respect of, the Corporation's reputation with stakeholders, special interest groups, political leadership, the media or other entities. Public opinion may be influenced by certain media and special interest groups' negative portrayal of the industry in which the Corporation operates, as well as their opposition to certain oil and natural gas projects. Concerns about climate change have resulted in a number of environmental activists and members of the public opposing the continued exploitation and development of fossil fuels which influenced investors' willingness to invest in the oil and natural gas industry. Historically, political and legal opposition to the fossil fuel industry focused on public opinion and the regulatory process. More recently, however, there has been a movement to more directly hold governments and oil and natural gas companies responsible for climate change through climate litigation. In November 2018, ENvironment JEUnesse, a Québec advocacy group, applied to the Québec Superior Court to certify all Quebecois under 35 as a class in a proposed class action lawsuit against the Government of Canada for climate-related matters. While the application was denied, the group has stated it plans to appeal. In January 2019, the City of Victoria became the first municipality in Canada to endorse a class action lawsuit against oil and natural gas producers for alleged climate-related harms. The Union of British Columbia Municipalities defeated the City of Victoria's motion to initiate a class action lawsuit to recover costs it claims are related to climate change. See also *"Risk Factors and Risk Management – Changing Investor Sentiment", "Risk Factors and Risk Management – Public Opinion and Reputational Risk"* and *"Risk Factors and Risk Management – Public Opposition and Non-Governmental Organizations".*

Transition Risks – Market

Concerns over climate change, fossil fuels, GHG emissions and water and land-use could lead to reduced demand for the oil, natural gas and NGLs that the Corporation produces, which would have a material adverse effect on the

Corporation's business, financial condition, results of operations and prospects. See also *"Risk Factors and Risk Management – Alternatives to and Changing Demand for Petroleum Products".*

Transition Risks – Regulatory and Policy

Climate change policy is evolving at regional, national and international levels and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place to prevent climate change or mitigate its effects. Existing and future laws and regulations may impose significant liabilities for a failure to comply with their requirements. Concerns over climate change, fossil fuels, GHG emissions and water and land-use could lead to the enactment of more stringent laws and regulations applicable to the Corporation. Any new laws and regulations (or additional requirements to existing laws and regulations) could have a material impact on the Corporation's business, financial condition, results of operations and prospects.

Adverse impacts to the Corporation's business as a result of GHG legislation may include, but are not limited to, increased compliance costs, permitting delays, increased operating costs and capital expenditures. Given the evolving nature of climate change policy and the control of GHG and resulting requirements, it is expected that current and future climate change regulations will have the effect of increasing the Corporation's operating expenses and in the long-term, potentially reducing the demand for oil and natural gas resulting in a decrease in the Corporation's profitability and a reduction in the value of its assets or requiring impairments for financial statement purposes.

The Corporation's exploration and production facilities and other operations and activities emit GHGs which requires the Corporation to comply with applicable GHG emissions legislation. The Corporation is subject to Alberta's *Technology Innovation and Emissions Reduction Regulation* and the Corporation may become subject to future regional, provincial and/or federal climate change regulations to manage GHG emissions.

See also *"Risk Factors and Risk Management – Regulatory", "Risk Factors and Risk Management – Environmental", "Risk Factors and Risk Management – Evolving Corporate Governance and Reporting Framework"* and "*Risk Factors and Risk Management – Carbon Pricing Risk".*

Transition Risks – Legal

The Corporation may become involved in, be named as a party to or be the subject of, various legal proceedings related to climate-change. See also *"Risk Factors and Risk Management – Litigation".*

Transition Risks – Technology

The adoption of new technologies by the Corporation to deal with climate change could require a significant capital investment. See also "*Risk Factors and Risk Management – Cost of New Technologies".*

Changing Investor Sentiment

Changing investor sentiment towards the oil and natural gas industry may impact the Corporation's access to, and cost of, capital

A number of factors, including the effects of the use of fossil fuels on climate change, the impact of oil and natural gas operations on the environment, environmental damage relating to spills of petroleum products during production and transportation and Indigenous rights, have affected certain investors' sentiments towards investing in the oil and natural gas industry. As a result of these concerns, some institutional, retail and governmental investors have announced that they no longer are willing to fund or invest in oil and natural gas properties or companies or are reducing the amount of their investments of such entities over time. In addition, certain institutional investors are requesting that issuers develop and implement more robust social, environmental and governance policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from the Corporation's Board of Directors, management and employees. Failing to

implement the policies and practices as requested by institutional investors may result in such investors reducing their investment in the Corporation or not investing in the Corporation at all. Any reduction in the investor base interested or willing to invest in the oil and natural gas industry and more specifically, in the Corporation, may result in limiting Birchcliff's access to capital, increasing the cost of capital and decreasing the price and liquidity of the Corporation's securities, even if the Corporation's operating results, underlying asset value or prospects have not changed. Additionally, these factors, as well as other related factors, may cause a decrease in the value of the Corporation's assets which may result in an impairment charge.

Public Opinion and Reputational Risk

The Corporation relies on its reputation to continue its operations and to attract and retain investors and employees

The Corporation's business, financial condition, operations and prospects may be negatively impacted as a result of any negative public opinion towards the Corporation or as a result of any negative sentiment towards, or in respect of, the Corporation's reputation with stakeholders, special interest groups, political leadership, the media or other entities. Public opinion may be influenced by certain media and special interest groups' negative portrayal of the industry in which the Corporation operates, as well as their opposition to certain oil and natural gas projects. Potential impacts of negative public opinion or reputational issues may include delays or interruptions in operations, legal or regulatory actions or challenges, blockades, increased regulatory oversight, reduced support for, delays in, challenges to, or the revocation of regulatory approvals, permits and/or licences and increased costs and/or cost overruns. See also *"Risk Factors and Risk Management – Public Opposition and Non-Governmental Organizations".*

Any environmental damage, loss of life, injury or damage to property caused by the Corporation's operations could damage its reputation. Negative sentiment towards the Corporation could result in a lack of willingness of governmental authorities to grant the necessary licences or permits for the Corporation to operate its business. In addition, negative sentiment towards the Corporation could result in the residents of the areas where the Corporation is doing business opposing further operations in the area by the Corporation. If the Corporation develops a reputation of having an unsafe workplace, this may impact its ability to attract and retain the necessary skilled employees and consultants to operate its business. Further, the Corporation's reputation could be affected by actions and activities of other corporations operating in the oil and natural gas industry, particularly other producers, over which the Corporation has no control. Further, opposition from special interest groups opposed to oil and natural gas development and the possibility of climate-related litigation against governments and fossil fuel companies may harm the Corporation's reputation. See *"Risk Factors and Risk Management – Climate Change".*

Reputational risk cannot be managed in isolation from other forms of risk. Credit, market, operational, insurance, regulatory and legal risks, among others, must all be managed effectively to safeguard the Corporation's reputation. Damage to the Corporation's reputation could result in negative investor sentiment towards the Corporation, which may result in limiting the Corporation's access to capital, increasing the cost of capital and decreasing the price and liquidity of the Corporation's securities.

Public Opposition and Non-Governmental Organizations

The oil and natural gas industry and the Corporation may be subject to public opposition and other actions by non-governmental organizations

The oil and natural gas industry may, at times, be subject to public opposition. The oil and natural gas industry has become an increasingly politically polarizing topic in Canada, which has resulted in a rise in civil disobedience surrounding oil and natural gas development, particularly with respect to infrastructure projects. Such public opposition could expose the Corporation to the risk of higher costs, operational delays and disruptions or even project cancellations due to increased pressure on governments and regulators by special interest groups, which may include Indigenous groups, landowners, environmental interest groups (including those opposed to oil and gas production operations) and other non-governmental organizations. Potential impacts of such pressure and

opposition include blockades, legal or regulatory actions or challenges, increased regulatory oversight, reduced support of the federal, provincial or municipal governments, and delays in, challenges to, or the revocation of regulatory approvals, permits and/or licences, as well as direct legal challenges, including the possibility of climate-related litigation. There is no guarantee that the Corporation will be able to satisfy the concerns of the special interest groups and non-governmental organizations and attempting to address such concerns may require significant and unanticipated capital and operating expenditures which may negatively impact the Corporation's business, financial condition, results of operations and prospects.

In addition, the Corporation's oil and natural gas properties, wells and facilities or the third-party facilities and pipelines utilized by the Corporation could be the subject of a terrorist attack. If any of such properties, wells or facilities are the subject of terrorist attack, it may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Alternatives to and Changing Demand for Petroleum Products

Changes to the demand for oil and natural gas products and the rise of petroleum alternatives may negatively affect the Corporation's business, financial condition, results of operations and cash flow

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas and technological advances in fuel economy and renewable energy generation systems could reduce the demand for oil, natural gas and liquid hydrocarbons. Recently, certain jurisdictions have implemented policies or incentives to decrease the use of fossil fuels and encourage the use of renewable fuel alternatives, which may lessen the demand for petroleum products and put downward pressure on commodity prices. Advancements in energy efficient products have a similar effect on the demand for oil and natural gas products. The Corporation cannot predict the impact of the changing demand for oil and natural gas products and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flow by decreasing the Corporation's profitability, increasing its costs, limiting its access to capital or decreasing the value of its assets.

Regulatory

Modification to current, or implementation of additional, regulations may reduce the demand for oil and natural gas, increase the Corporation's costs and/or delay planned operations

The implementation of new regulations or the modification to existing regulations affecting the oil and natural gas industry could reduce the demand for crude oil and natural gas, increase the Corporation's costs or make certain projects uneconomic, any of which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. Further, the ongoing third-party challenges to regulatory decisions and orders has reduced the efficiency of the regulatory regime, as the implementation of the decisions and orders has been delayed resulting in uncertainty and interruption to the business of the oil and natural gas industry.

In order to conduct oil and natural gas operations, the Corporation requires regulatory permits, licences, registrations, approvals and authorizations from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all of the permits, licences, registrations, approvals and authorizations that may be required to conduct operations that it may wish to undertake. In addition, the Corporation may have to comply with the requirements of certain federal legislation such as the *Competition Act* (Canada) and the *Investment Canada Act* (Canada), which may adversely affect its business and financial condition and the market value of its securities or assets, particularly when undertaking, or attempting to undertake, an acquisition or disposition.

Environmental

Compliance with environmental regulations requires the dedication of a portion of the Corporation's financial and operational resources

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, the initiation and approval of new oil and natural gas projects and restrictions and prohibitions on the spill, release or emission of various substances produced in association with oil and natural gas industry operations. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. New environmental legislation at the federal and provincial levels may increase uncertainty among oil and natural gas industry participants as the new laws are implemented, and the effects of the new rules and standards are felt in the oil and natural gas industry.

Compliance with environmental legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it is in material compliance with current applicable environmental legislation, no assurance can be given that environmental compliance requirements will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

In addition, political and economic events may significantly affect the scope and timing of climate change measures that are put in place. The implementation of new environmental regulations or the modification of existing environmental regulations affecting the oil and natural gas industry generally could reduce demand for oil and natural gas and increase costs. See *"Risk Factors and Risk Management – Climate Change"*.

Carbon Pricing Risk

Taxes on carbon emissions affect the demand for oil and natural gas and the Corporation's operating expenses and may impair the Corporation's ability to compete

The majority of countries across the globe have agreed to reduce their carbon emissions in accordance with the Paris Agreement. In Canada, the Federal Government has implemented legislation aimed at incentivizing the use of alternative fuels and in turn reducing carbon emissions. The federal system currently applies in provinces and territories without their own system that meets federal standards. The federal regime is subject to a number of court challenges.

Any taxes placed on carbon emissions may have the effect of decreasing the demand for oil and natural gas products and at the same time, increasing the Corporation's operating expenses, each of which may have a material adverse effect on the Corporation's profitability and financial condition. Further, the imposition of carbon taxes puts companies at an economic disadvantage with their counterparts who operate in jurisdictions where there are less costly carbon regulations. See also *"Risk Factors and Risk Management – Climate Change"* and *"Risk Factors and Risk Management – Environmental".*

Credit Facilities

The Corporation's borrowing base under the Credit Facilities could be redetermined and the Corporation could fail to comply with covenants under the Credit Facilities, resulting in restricted access to capital or a requirement to repay all amounts owing thereunder

The amount authorized under the Credit Facilities is dependent on the borrowing base determined by the Corporation's lenders. The Credit Facilities are subject to semi-annual reviews of the borrowing base limit by Birchcliff's syndicate of lenders, which limit is directly impacted by the value of Birchcliff's oil and natural gas reserves. The Corporation's lenders use the Corporation's reserves, commodity prices and other factors to determine the Corporation's borrowing base. Commodity prices continue to be depressed and have fallen dramatically since 2014. Continued depressed commodity prices or further declines in commodity prices could result in a reduction in the Corporation's borrowing base, thereby reducing the funds available to the Corporation under the Credit Facilities. As the borrowing base is determined based on the lender's interpretation of the Corporation's reserves and future commodity prices, there can be no assurance as to the amount of the borrowing base determined at each review.

In addition to the semi-annual reviews of the borrowing limit, the lenders have the right to redetermine the borrowing base limit in certain other circumstances. In the event that: (i) the Corporation, any material subsidiary of the Corporation or any of its borrowing base properties become subject to an abandonment/reclamation order by an energy regulator where the aggregate estimated current cost to the Corporation and its material subsidiaries to comply with all outstanding orders exceeds 10% of the borrowing base; or (ii) the liability management rating (as such term is defined in the agreement governing the Credit Facilities) of the Corporation or any material subsidiary is less than 2.0, then, unless agreed to by all of the lenders, a redetermination of the borrowing base shall be completed within 45 days of receipt by the Corporation or the applicable material subsidiary of such order or demand in the case of (i) above, and of receipt by the agent of notice that the liability management rating is less than 2.0 in the case of (ii) above. Further, a majority of lenders have the right once per year to redetermine the borrowing base in between scheduled redeterminations and the borrowing base may also be reduced in connection with asset dispositions.

If, at the time of a borrowing base redetermination, the outstanding borrowings under the Credit Facilities were to exceed the borrowing base as a result of any such redetermination, the Corporation would be required to make principal repayments or otherwise eliminate the borrowing base shortfall. If the Corporation is forced to repay a portion of its indebtedness under the Credit Facilities, it may not have sufficient funds to make such repayments. If it does not have sufficient funds and is otherwise unable to negotiate renewals of its borrowings or arrange new financing, it may have to sell significant assets. Any such sale could have a material adverse effect on the Corporation's business and financial results.

The maturity date of the Credit Facilities is currently May 11, 2022. The Corporation may each year, at its option, request an extension to the maturity date of the Syndicated Credit Facility and the Working Capital Facility, or either of them, for an additional period of up to three years from May 11 of the year in which the extension request is made. In the event that either of the Credit Facilities is not extended before the maturity date, all outstanding indebtedness under such Credit Facility will be repayable at the maturity date. There is also a risk that the Credit Facilities will not be renewed for the same principal amount or on the same terms. Any of these events could adversely affect the Corporation's ability to fund its ongoing operations and to pay dividends.

The Corporation is required to comply with covenants under the Credit Facilities. In the event that the Corporation does not comply with these covenants, the Corporation's access to capital could be restricted or repayment could be required. Events beyond the Corporation's control may contribute to the failure of the Corporation to comply with such covenants. A failure to comply with covenants could result in an event of default under the Credit Facilities, which could result in the Corporation being required to repay amounts owing thereunder and may prevent the payment of dividends to shareholders. The acceleration of the Corporation's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross-default or cross-acceleration

provisions. In addition, the Credit Facilities impose certain restrictions on the Corporation, including, but not limited to, restrictions on the payment of dividends, incurring of additional indebtedness, dispositions of properties and the entering into of amalgamations, mergers, plans of arrangements, reorganizations or consolidations with any person. The Credit Facilities do not currently contain any financial maintenance covenants; however, there is no assurance that the Corporation's lenders will not impose any such covenants on the Corporation in the future. Any such covenants may either affect the availability or price of additional funding.

If the Corporation's lenders require repayment of all or portion of the amounts outstanding under the Credit Facilities for any reason, including for a default of a covenant, there is no certainty that the Corporation would be in a position to make such repayment. Even if the Corporation is able to obtain new financing in order to make any required repayment under the Credit Facilities, it may not be on commercially reasonable terms or terms that are acceptable to the Corporation. If the Corporation is unable to repay amounts owing under the Credit Facilities, the lenders under the Credit Facilities could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness.

Issuance of Debt

Increased debt levels may impair the Corporation's ability to borrow additional capital on a timely basis to fund opportunities as they arise

From time to time, the Corporation may finance its activities (including asset acquisitions) in whole or in part with debt, which may increase the Corporation's debt levels above industry standards for peers of similar size. Depending on future exploration and development plans, the Corporation may require additional debt financing that may not be available or, if available, may not be available on favourable terms. Neither the Corporation's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. The level of the Corporation's indebtedness from time to time could impair the Corporation's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Hedging

Hedging activities expose the Corporation to the risk of financial loss and counter-party risk

From time to time, the Corporation may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline. Similarly, the Corporation may enter into agreements to fix the differential or discount pricing gap which exists and may fluctuate between different grades of oil, NGLs and natural gas and the various market prices received for such products. However, to the extent that the Corporation engages in price risk management activities to protect itself from commodity price declines, it may also be prevented from realizing the full benefits of price increases above the levels of the derivative instruments used to manage price risk. In addition, the Corporation's hedging arrangements expose it to the risk of financial loss in certain circumstances, including instances in which:

- production falls short of the hedged volumes or prices fall significantly lower than projected;
- there is a widening of price-basis differentials between delivery points for production and the delivery point assumed in the hedge arrangement;
- the counterparties to the hedging arrangements or other price risk management contracts fail to perform under those arrangements; and/or
- a sudden unexpected material event impacts crude oil and natural gas prices.

Similarly, the Corporation may enter into agreements to fix the exchange rate of Canadian dollars to United States dollars or other currencies in order to offset the risk of revenue losses if the Canadian dollar increases in value

compared to the other currencies. However, if the Canadian dollar declines in value compared to such fixed currencies, the Corporation will not benefit from the fluctuating exchange rate.

Further, the Corporation may enter into hedging arrangements to fix interest rates applicable to the Corporation's debt. However, if interest rates decrease as compared to the interest rate fixed by the Corporation, the Corporation will not benefit from the lower interest rate.

Market Prices of the Corporation's Securities

The trading price of the Corporation's securities may be volatile and adversely affected by factors related and unrelated to the oil and natural gas industry and cannot be accurately predicted

The market price of the Corporation's securities may be volatile, which may affect the ability of holders to sell such securities at an advantageous price. The trading price of the securities of oil and natural gas issuers, including the Corporation, is subject to substantial volatility often based on factors related and unrelated to the financial performance or prospects of the issuers involved. Factors unrelated to the Corporation's performance could include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices and/or current perceptions of the oil and natural gas market. This includes, but is not limited to, changing (and in some cases negative) investor sentiment towards energy-related businesses. In recent years, the volatility of commodities has increased due to, in part, the implementation of computerized trading and the decrease of discretionary commodity trading. In addition, the volatility, trading volume and share price of issuers have been impacted by increasing investment levels in passive funds that track major indices, as such funds only purchase securities included in such indices. Further, in certain jurisdictions, institutions, including government-sponsored entities, have determined to decrease their ownership in oil and natural gas entities, which may impact the liquidity of certain securities and may put downward pressure on the trading price of those securities.

Similarly, the market prices of the Corporation's securities could be subject to significant fluctuations in response to variations in the Corporation's operating results, financial condition, liquidity and other internal factors. In addition, market price fluctuations in the Corporation's securities may also be due to the Corporation's results failing to meet the expectations of securities analysts or investors in any quarter, downward revisions in securities analysts' estimates and material public announcements by the Corporation, along with a variety of additional factors, including, without limitation, those set forth under "*Advisories – Forward-Looking Statements*". Accordingly, the prices at which the Corporation's securities will trade cannot be accurately predicted.

Hydraulic Fracturing

Implementation of new regulations on hydraulic fracturing may lead to operational delays, increased costs and/or decreased production volumes, adversely affecting the Corporation's business and financial position

Hydraulic fracturing involves the injection of water, sand and small amounts of additives under pressure into rock formations to stimulate the production of oil and natural gas. Specifically, hydraulic fracturing enables the production of commercial quantities of oil and natural gas from reservoirs that were previously unproductive. While hydraulic fracturing has been in use for many years, there has been increased focus on the environmental aspects of hydraulic fracturing practices in recent years. Increased regulation and attention given to the hydraulic fracturing process could lead to greater opposition (including litigation) to oil and natural gas production activities using hydraulic fracturing techniques. Any new laws, regulations or permitting requirements regarding hydraulic fracturing could lead to operational delays, increased operating costs, third-party or governmental claims and could increase the Corporation's costs of compliance and doing business, as well as delay the development of oil and natural gas resources from certain formations which are not commercial without the use of hydraulic fracturing. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that the Corporation is ultimately able to produce from its reserves and, therefore, could adversely affect the Corporation's business, financial condition, results of operations and prospects.

Minor earthquakes are common in certain parts of Alberta, and are generally clustered around the municipalities of Cardston, Fox Creek and Rocky Mountain House. Due to notable seismic activity reported around Fox Creek, the Alberta Energy Regulator (the "**AER**") introduced seismic monitoring and reporting requirements for hydraulic fracturing operators in the Duvernay formation in the Fox Creek area in February 2015. These requirements include, among others, an assessment of the potential for seismicity prior to conducting operations, the implementation of a response plan to address potential seismic events, and the suspension of operations if a seismic event above a particular threshold occurs. These requirements remain in effect as long as the AER deems them necessary. Further, the AER continues to monitor seismic activity around the province and may extend these requirements to other areas of the province if necessary.

Competition

The Corporation competes with other oil and natural gas companies, some of which have greater financial and operational resources

The oil and natural gas industry is highly competitive in all of its phases. The Corporation competes with numerous other entities in the exploration, development, production and marketing of oil and natural gas, including land, acquisitions of reserves, access to drilling and service rigs and other equipment, access to transportation and access to skilled technical and operating personnel. The Corporation's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Corporation. Some of these companies not only explore for, develop and produce oil and natural gas, but also carry on refining operations and market oil and natural gas on an international basis. As a result of these complementary activities, some of these competitors may have greater and more diverse competitive resources to draw on than the Corporation. The Corporation's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling.

Variations in Foreign Exchange Rates and Interest Rates

Variations in foreign exchange rates and interest rates could adversely affect the Corporation's financial condition

World oil and natural gas prices are quoted in United States dollars. The Canadian/United States dollar exchange rate, which fluctuates over time, consequently affects the price received by Canadian producers of oil and natural gas. Material increases in the value of the Canadian dollar relative to the United States dollar may negatively affect the Corporation's production revenue. Accordingly, Canadian/United States exchange rates could impact the future value of the Corporation's reserves as determined by independent evaluators. Although a low value of the Canadian dollar relative to the United States dollar may positively affect the price the Corporation receives for its oil and natural gas production, it could also result in an increase in the price for certain goods used for the Corporation's operations, which may have a negative impact on the Corporation's financial results.

To the extent that the Corporation engages in risk management activities related to foreign exchange and interest rates, there is credit risk associated with the counterparties with whom the Corporation may contract. See also *"Risk Factors and Risk Management – Hedging"*.

An increase in interest rates could result in a significant increase in the amount the Corporation pays to service debt, resulting in a reduced amount available to fund its exploration and development activities and the cash available for dividends and could negatively impact the market prices of the Corporation's securities.

Availability and Cost of Equipment, Materials and Services

Restrictions on the availability and cost of equipment, materials and services may impede the Corporation's exploration, development and operating activities

Oil and natural gas exploration, development and operating activities are dependent on the availability and cost of specialized equipment and other materials (typically leased from third parties) and skilled personnel trained to use such equipment in the areas where such activities will be conducted. The availability of such equipment, materials and personnel is limited. An increase in demand or cost, or a decrease in the availability of, such equipment, materials or personnel may impede the Corporation's exploration, development and operating activities, which, in turn, could materially adversely affect the Corporation's business and financial condition.

Potential Future Drilling Locations

The Corporation's identified potential future drilling locations are susceptible to uncertainties that could materially alter the occurrence or timing of their drilling

The Corporation's identified potential future drilling locations represent a significant part of the Corporation's future growth. The Corporation's ability to drill and develop these locations and the drilling locations on which the Corporation actually drills wells depends on a number of uncertainties and factors, including, but not limited to, the availability of capital, equipment and personnel, oil and natural gas prices, costs, inclement weather, seasonal restrictions, drilling results, additional geological, geophysical and reservoir information that is obtained, production rate recovery, gathering system and transportation constraints, the net price received for commodities produced, regulatory approvals and regulatory changes. As a result of these uncertainties, there can be no assurance that the potential future drilling locations that Birchcliff has identified will ever be drilled and, if drilled, that such locations will result in additional oil, NGLs or natural gas production and, in the case of unbooked locations, additional reserves. As such, the Corporation's actual drilling activities may differ materially from those presently identified, which could adversely affect the Corporation's business.

Seasonality

Oil and natural gas operations are subject to seasonal conditions and the Corporation may experience significant operational delays as a result

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments may enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Road bans and other restrictions generally result in a reduction of drilling and exploratory activities and may also result in the shut-in of some of the Corporation's production if not otherwise tied-in. In addition, certain oil and natural gas producing properties are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Further, extreme cold weather, heavy snowfall and heavy rainfall may restrict the Corporation's ability to access its properties and cause operational difficulties including damage to machinery or contribute to personnel injury because of dangerous working conditions. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and also to volatility in commodity prices as the demand for natural gas typically fluctuates during cold winter months and hot summer months.

All Assets in One Area

All of the Corporation's properties are located in the Peace River Arch area of Alberta, making the Corporation vulnerable to risks associated with having its production concentrated in one area

All of the Corporation's producing properties are geographically concentrated in the Peace River Arch area of Alberta. As a result of this concentration, the Corporation may be disproportionately exposed to the impact of delays

or interruptions of production from that area caused by transportation capacity constraints, curtailment of production, natural disasters, availability of equipment, facilities or services, adverse weather conditions or other events which impact that area. Due to the concentrated nature of the Corporation's portfolio of properties, a number of the Corporation's properties could experience any of the same conditions at the same time, resulting in a relatively greater impact on the Corporation's results of operations than they might have on other companies that have a more diversified portfolio of properties. Such delays or interruptions could have a material adverse effect on the Corporation's financial condition and results of operations.

Cost of New Technologies

The Corporation's ability to successfully implement new technologies into its operations in a timely and efficient manner will affect its ability to compete

The oil and natural gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil and natural gas companies may have greater financial, technical and personnel resources that allow them to implement and benefit from new technologies before the Corporation. There can be no assurance that the Corporation will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. If the Corporation implements such technologies, there is no assurance that the Corporation will do so successfully. One or more of the technologies currently utilized by the Corporation or implemented in the future may become obsolete. In such case, the Corporation's business, financial condition, results of operations and prospects could be affected adversely and materially. If the Corporation is unable to utilize the most advanced commercially available technology or is unsuccessful in implementing certain technologies, its business, financial condition, results of operations and prospects could also be adversely affected in a material way.

Dividends

The payment of dividends could vary

The declaration and payment of future dividends (and the amount thereof) is subject to the discretion of the Board of Directors and may vary depending on a variety of factors and conditions existing from time to time, including fluctuations in commodity prices, the financial condition of Birchcliff, production levels, results of operations, capital expenditure requirements, working capital requirements, debt service requirements, operating costs, royalty burdens, foreign exchange rates, interest rates, contractual restrictions, Birchcliff's hedging activities or programs, available investment opportunities, Birchcliff's business plan, strategies and objectives, the satisfaction of the solvency and liquidity tests imposed by the *Business Corporations Act* (Alberta) (the "**ABCA**") for the declaration and payment of dividends and other factors that the Board of Directors may deem relevant. Depending on these and various other factors, many of which are beyond the control of Birchcliff, the dividend policy of the Corporation may vary from time to time and, as a result, future cash dividends could be reduced or suspended entirely.

Pursuant to the ABCA, the Corporation may not declare or pay a dividend if there are reasonable grounds for believing that: (i) the Corporation is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realizable value of its assets would thereby be less than the aggregate of its liabilities and stated capital of its outstanding shares. Additionally, pursuant to the agreement governing the Credit Facilities, the Corporation is not permitted to make any distribution (which includes dividends) at any time when an event of default exists or would reasonably be expected to exist upon making such distribution, unless such event of default arose subsequent to the ordinary course declaration of the applicable distribution.

Dividends may be reduced or suspended during periods of lower cash flow from operations. The timing and amount of Birchcliff's capital expenditures, and the ability of the Corporation to repay or refinance existing debt as it becomes due, directly affects the amount of cash dividends that may be declared by the Board of Directors. Future acquisitions, expansions of Birchcliff's assets, and other capital expenditures and the repayment or refinancing of existing debt as it becomes due may be financed from sources such as cash flow from operations, the issuance of

additional shares or other securities of Birchcliff, and borrowings. Dividends may be reduced, or even eliminated, at times when significant capital or other expenditures are made. There can be no assurance that sufficient capital will be available on terms acceptable to Birchcliff, or at all, to make additional investments, fund future expansions or make other required capital expenditures. To the extent that external sources of capital, including the issuance of additional shares or other securities or the availability of additional credit facilities, become limited or unavailable on favourable terms or at all due to credit market conditions or otherwise, the ability of the Corporation to make the necessary capital investments to maintain or expand its operations, to repay outstanding debt and to invest in assets, as the case may be, may be impaired. To the extent Birchcliff is required to use cash flow from operations to finance capital expenditures or acquisitions or to repay existing debt as it becomes due, the cash available for dividends may be reduced and the level of dividends declared may be reduced or suspended entirely.

Over time, the Corporation's capital and other cash needs may change significantly from its current needs, which could affect whether the Corporation pays dividends and the amount of dividends, if any, it may pay in the future. If the Corporation continues to pay dividends at the current levels, it may not retain a sufficient amount of cash to finance external growth opportunities, meet any large unanticipated liquidity requirements or fund its activities in the event of a significant business downturn.

The market value of the Corporation's securities may deteriorate if dividends are reduced or suspended. Furthermore, the future treatment of dividends for tax purposes will be subject to the nature and composition of dividends paid by Birchcliff and potential legislative and regulatory changes.

Reliance on a Skilled Workforce and Key Personnel

An inability to recruit and retain a skilled workforce and key personnel would negatively impact the Corporation

The operations and management of the Corporation require the recruitment and retention of a skilled workforce, including engineers, technical personnel and other professionals. The loss of key members of such workforce, or a substantial portion of the workforce as a whole, could result in the failure to implement the Corporation's business plans, which could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Contributions of the existing management team to the immediate and near-term operations of the Corporation are likely to be of central importance. In addition, certain of the Corporation's current employees are senior and have significant institutional knowledge that must be transferred to other employees prior to their departure from the workforce. If the Corporation is unable to: (i) retain current employees; (ii) successfully complete effective knowledge transfers; and/or (iii) recruit new employees with the requisite knowledge and experience, the Corporation could be negatively impacted. In addition, the Corporation could experience increased costs to retain and recruit these professionals.

Earnings Volatility

Earnings of the Corporation may fluctuate in each reporting period

The Corporation's accounting policies conform to IFRS which constitutes generally accepted accounting principles in Canada. Accounting under IFRS may result in non-cash charges and/or write-downs of net assets in the financial statements on a quarterly basis. Similarly, non-cash gains and reversals of asset write-downs may also be recorded from time to time. Income statement volatility resulting from such non-cash gains and losses under IFRS may be viewed unfavourably by the market and could result in an inability to borrow funds and/or could result in a decline in the price of the Corporation's securities.

Management of Growth and Integration

The Corporation may not be able to effectively manage the growth of its business

The Corporation may be subject to both integration and growth-related risks, including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to effectively manage growth and the integration of additional assets will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Corporation to effectively deal with this integration and growth could have a material adverse impact on its business, financial condition, results of operations and prospects.

Information Technology Systems and Cyber-Security

A disruption of information technology services or a cyber-security breach may adversely affect the Corporation

The Corporation has become increasingly dependent upon the availability, capacity, reliability and security of its information technology infrastructure and its ability to expand and continually update this infrastructure to conduct daily operations. The Corporation depends on various information technology systems to estimate reserves, process and record financial data, manage its financial resources and land base, analyze seismic information, administer its contracts with its operators and lessees and communicate with employees and third-party partners.

In the event the Corporation is unable to regularly deploy software and hardware, effectively upgrade systems and network infrastructure and take other steps to maintain or improve the efficiency and efficacy of its information technology systems, the operation of such systems could be interrupted or result in the loss, corruption or release of data. Further, the Corporation is subject to a variety of information technology and system risks as a part of its normal course operations, including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of the Corporation's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to its business activities or its competitive position. In addition, cyber-phishing attempts, in which a malicious party attempts to obtain sensitive information such as usernames, passwords, and credit card details (and money) by disguising as a trustworthy entity in an electronic communication, have become more widespread and sophisticated in recent years. If the Corporation becomes a victim to a cyber-phishing attack it could result in a loss or theft of the Corporation's financial resources or critical data and information or could result in a loss of control of the Corporation's technological infrastructure or financial resources. The Corporation's employees are often the targets of such cyber-phishing attacks, as they are and will continue to be targeted by parties using fraudulent "spoof" emails to misappropriate information or to introduce viruses or other malware through "trojan horse" programs to the Corporation's computers. These emails appear to be legitimate emails, but direct recipients to fake websites operated by the sender of the email or request recipients to send a password or other confidential information through email or to download malware.

In addition to the oversight provided by the Corporation's Information Technology Committee, there is further reporting on the Corporation's information technology and cyber-security risks to the Board of Directors. Further, the Corporation maintains policies and procedures that address and implement employee protocols with respect to electronic communications and electronic devices and the Corporation periodically conducts cyber-security risk assessments. The Corporation also employs encryption protection for some of its confidential information. Despite the Corporation's efforts to mitigate such cyber-phishing attacks through education and training, phishing activities remain a serious problem that may damage its information technology infrastructure. The Corporation applies technical and process controls in line with industry-accepted standards to protect its information assets and systems, including a written incident response plan for responding to a cyber-security incident. However, these controls may not adequately prevent cyber-security breaches. Disruption of critical information technology services, or breaches of information security, could have a negative effect on the Corporation's performance, earnings and its reputation and any damages sustained may not be adequately covered by the Corporation's current insurance coverage, or at

all. The significance of any such event is difficult to quantify, but may in certain circumstances be material and could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

To date, the Corporation has not been subject to a cyber-security attack or other breach that has had a material impact on its business or operations or resulted in material losses to the Corporation; however, there is no assurance that the measures the Corporation takes to protect its business systems and operational control systems will be effective in protecting against a breach in the future and that the Corporation will not incur such losses in the future.

Insurance

Not all risks are insurable and the occurrence of an uninsurable event may have a material adverse effect on the Corporation

Although the Corporation maintains insurance in accordance with industry standards to address certain risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of liabilities. In addition, certain risks are not, in all circumstances, insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or for other reasons. The payment of any uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Ligation

The Corporation may be involved in litigation in the course of its normal operations and the outcome of the litigation may adversely affect the Corporation and its reputation

In the normal course of the Corporation's operations, it may become involved in, be named as a party to or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions. Such proceedings may develop in relation to personal injury (including claims resulting from exposure to hazardous substances), property damage, property taxes, land and access rights, royalty rights, the environment (including claims relating to contamination) and lease and contractual disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Corporation and, as a result, could have a material adverse effect on the Corporation's business, financial condition and results of operations. Even if the Corporation prevails in any such legal proceedings, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from the Corporation's business operations, which may adversely affect the Corporation.

Due to the rapid development of oil and natural gas technology, the Corporation may become involved in, be named as a party to or be the subject of, various legal proceedings in which it is alleged that the Corporation has infringed the intellectual property rights of others or conversely, the Corporation may commence lawsuits against others who the Corporation believes are infringing upon its intellectual property rights. The Corporation's involvement in intellectual property litigation could result in significant expense, adversely affecting the development of its assets or intellectual property or diverting the efforts of its technical and management personnel, whether or not such litigation is resolved in the Corporation's favour. In the event of an adverse outcome as a defendant in any such litigation, the Corporation may, among other things, be required to: (i) pay substantial damages; (ii) cease the use of infringing intellectual property; (iii) expend significant resources to develop or acquire non-infringing intellectual property; (iv) discontinue processes incorporating infringing technology; or (v) obtain licences to the infringing intellectual property. However, the Corporation may not be successful in such development or acquisition or such licences may not be available on reasonable terms. Any such development, acquisition or licence could require the expenditure of substantial time and other resources and could have a material adverse effect on the Corporation's business and financial results.

Indigenous Claims

Indigenous claims may affect the Corporation

Indigenous peoples have claimed Indigenous rights and title in portions of Western Canada. The Corporation is not aware that any claims have been made in respect of its properties or assets; however, the legal basis of an Indigenous land claim and Indigenous rights are matters of considerable legal complexity and the impact of the assertion of such a claim, or the possible effect of a settlement of such claim, upon the Corporation cannot be predicted with any degree of certainty. In addition, no assurance can be given that any recognition of Indigenous rights or claims whether by way of a negotiated settlement or by judicial pronouncement (or through the grant of an injunction prohibiting exploration or development activities pending resolution of any such claim) would not delay or even prevent the Corporation's exploration and development activities. If a claim arose and was successful, such claim may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In addition, the process of addressing such claims, regardless of the outcome, is expensive and time consuming and could result in delays which could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

In addition, claims and protests of Indigenous peoples may disrupt or delay third-party operations or new development on the Corporation's properties.

Credit Risk

The Corporation is exposed to credit risk through its contractual arrangements and its third-party operators or partners of properties in which it has an interest

The Corporation may be exposed to third-party credit risk through its contractual arrangements with joint venture partners, marketers of its oil and natural gas production and other parties. In addition, the Corporation may be exposed to third-party credit risk from operators of properties in which the Corporation has a working or royalty interest. In the event such entities fail to meet their contractual obligations to the Corporation, such failures may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry generally and of joint venture partners may affect a joint venture partner's willingness to participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner. To the extent that any of such third parties go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in the Corporation being unable to collect all or a portion of any money owing from such parties. Any of these factors could materially adversely affect the Corporation's financial and operational results.

Conversely, the Corporation's counterparties may deem the Corporation to be at risk of defaulting on its contractual obligations. These counterparties may require that the Corporation provide additional credit assurance by prepaying anticipated expenses or posting letters of credit, which would decrease the Corporation's available liquidity.

Internal Controls

Material weaknesses in the Corporation's internal controls may negatively affect the Corporation and the market price of the Corporation's securities

Effective internal controls are necessary for the Corporation to provide reliable financial reports and to help prevent fraud. Although the Corporation undertakes a number of procedures in order to help ensure the reliability of its financial reports, including those imposed on it under Canadian securities laws, the Corporation cannot be certain that such measures will ensure that the Corporation will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Corporation's results of operations or cause it to fail to meet its reporting obligations. If the Corporation or its independent auditors discover a material weakness, the disclosure of that fact,

even if quickly remedied, could reduce the market's confidence in the Corporation's financial statements and negatively impact the trading prices of the Corporation's securities.

Liability Management Programs

Liability management programs enacted by regulators may prevent or interfere with the Corporation's ability to acquire properties or require a substantial cash deposit with the regulator

Alberta has developed a liability management rating program (the "**AB LMR Program**") which is designed to prevent taxpayers from incurring costs associated with the suspension, abandonment, remediation and reclamation of wells, facilities and pipelines in the event that a licensee or permit holder is unable to satisfy its regulatory obligations. Changes to the AB LMR Program administered by the AER or other changes to the requirements of the AB LMR Program may result in the requirement for security to be posted in the future and may result in significant increases to the Corporation's compliance obligations.

The impact and consequences of the Supreme Court of Canada's decision in the *Redwater Energy Corporation (Re)* case on the AER's rules and policies, lending practices in the oil and natural gas industry and on the nature and determination of secured lenders to take enforcement proceedings are expected to evolve as the consequences of the decision are evaluated and considered by regulators, lenders and receivers/trustees. In addition, the AB LMR Program may prevent or interfere with the Corporation's ability to acquire or dispose of assets as both the vendor and the purchaser of oil and natural gas assets must be in compliance with the AB LMR Program (both before and after the transfer of the assets) for the applicable regulatory agency to allow for the transfer of such assets.

Title to and Right to Produce from Assets

Defects in the Corporation's title or rights to produce from its properties may result in a financial loss

The Corporation's actual title to and interest in its properties, and its right to produce and sell the oil and natural gas therefrom, may vary from the Corporation's records. In addition, there may be valid legal challenges or legislative changes that affect the Corporation's title to and right to produce from its oil and natural gas properties, which could impair the Corporation's activities on them and result in a reduction of the revenue received by the Corporation.

If a defect exists in the chain of title or in the Corporation's right to produce, or a legal challenge or legislative change arises, it is possible that the Corporation may lose all or a portion of the properties to which the title defect relates and/or its right to produce from such properties. This may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Expiration of Licences and Leases

The Corporation, or its working interest partners, may fail to meet the requirements of a licence or lease, causing its termination or expiry

The Corporation's properties are held in the form of licences and leases and working interests in licences and leases held by others. If the Corporation or the holder of the licence or lease fails to meet the specific requirements of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of the Corporation's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on the business, financial condition, results of operations and prospects of the Corporation.

Disposal of Fluids Used in Operations

Regulations regarding the disposal of fluids used in operations may increase costs of compliance or subject the Corporation to regulatory penalties or litigation

The safe disposal of the hydraulic fracturing fluids (including the additives) and water recovered from oil and natural gas wells is subject to ongoing regulatory review by the federal and provincial governments, including its effect on fresh water supplies and the ability of such water to be recycled, amongst other things. While it is difficult to predict the impact of any regulations that may be enacted in response to such review, the implementation of stricter regulations may increase the Corporation's costs of compliance which may impact the economics of certain projects and, in turn, impact activity levels and new capital spending on the Corporation's oil and natural gas properties.

Breaches of Confidentiality

Breach of confidentiality by a third party could impact the Corporation's competitive advantage or put it at risk of litigation

While discussing potential business relationships or other transactions with third parties, the Corporation may disclose confidential information relating to its business, operations or affairs. Although confidentiality agreements are generally signed by third parties prior to the disclosure of any confidential information, a breach could put the Corporation at competitive risk and may cause significant damage to its business. The harm to the Corporation's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, the Corporation will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

Operational Dependence

The Corporation is subject to risk as it pertains to other parties operating assets it has an interest in

Other companies operate some of the assets in which the Corporation has an interest. The Corporation has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect the Corporation's business, financial condition, results of operations and prospects. The Corporation's return on assets operated by others depends upon a number of factors that may be outside of the Corporation's control, including, but not limited to, the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

In addition, due to the current low and volatile commodity price environment, many companies, including companies that may operate some of the assets in which the Corporation has an interest, may be in financial difficulty, which could impact their ability to fund and pursue capital expenditures, carry out their operations in a safe and effective manner and satisfy regulatory requirements with respect to abandonment and reclamation obligations. If companies that operate some of the assets in which the Corporation has an interest fail to satisfy regulatory requirements with respect to abandonment and reclamation obligations, the Corporation may be required to satisfy such obligations and to seek recourse from such companies. To the extent that any of such companies go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in such assets being shut-in, the Corporation potentially becoming subject to additional liabilities relating to such assets and the Corporation having difficulty collecting revenue due to it from such operators or recovering amounts owing to the Corporation from such operators for their share of abandonment and reclamation obligations. Any of these factors could have a material adverse effect on the Corporation's financial and operational results.

Risks Associated with Acquisitions and Dispositions

The anticipated benefits of acquisitions may not be achieved and the Corporation may dispose of certain assets for less than their carrying value on the financial statements as a result of weak market conditions

The Corporation considers acquisitions and dispositions of assets in the ordinary course of business. Typically, once an acquisition opportunity is identified, a review of available information relating to the assets is conducted. There is a risk that even a detailed review of records and assets may not necessarily reveal every existing or potential problem, nor will it permit the Corporation to become sufficiently familiar with the assets to fully assess their deficiencies and potential. There is no guarantee that defects in the chain of title will not arise to defeat the Corporation's title to certain assets or that environmental defects, liabilities or deficiencies do not exist or are greater than anticipated. Inspections may not always be performed on every well, and environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, the Corporation may assume certain environmental and other risk liabilities in connection with acquired assets.

In addition, acquisitions of oil and natural gas properties or companies are based in large part on engineering, environmental and economic assessments. These assessments include a series of assumptions regarding such factors as recoverability and marketability of oil and natural gas, environmental restrictions and prohibitions regarding releases and emissions of various substances, future prices of oil and natural gas, future operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of the Corporation. All such assessments involve a measure of geological, engineering, environmental and regulatory uncertainty that could result in lower production and reserves or higher operating or capital expenditures than anticipated.

Achieving the benefits of acquisitions depends on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner and the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Corporation. The integration of acquired businesses and assets may require substantial management effort, time and resources, diverting management's focus away from other strategic opportunities and operational matters.

Management continually assesses the value and contribution of the various assets within its portfolio. In this regard, certain assets may be periodically disposed of so the Corporation can focus its efforts and resources more efficiently. Depending on market conditions for such assets, there is a risk that certain assets of the Corporation could realize less than their carrying value on the Corporation's financial statements.

Royalty Regimes

Changes to royalty regimes may negatively impact the Corporation's cash flow

There can be no assurance that the Government of Alberta will not adopt a new royalty regime or modify the existing royalty regime, which may have an impact on the economics of the Corporation's projects. An increase in royalties would reduce the Corporation's earnings and could make future capital investments, or the Corporation's operations, less economic or uneconomic.

Negative Impact of Additional Sales or Issuances of Securities

The Corporation may issue additional securities, diluting current shareholders

The Corporation may issue an unlimited number of Common Shares without any vote or action by the shareholders, subject to the rules of any stock exchange on which the Corporation's securities may be listed. The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation. If the Corporation issues additional securities, the percentage ownership of existing shareholders will be reduced and diluted and the price of the Corporation's securities could decrease.

Conflicts of Interest

Conflicts of interest may arise for the Corporation's directors and officers

Certain directors or officers of the Corporation may also be directors or officers of other oil and natural gas companies and as such may, in certain circumstances, have a conflict of interest. Conflicts of interest, if any, will be subject to and governed by procedures prescribed by the ABCA which require a director or officer of a Corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with the Corporation to disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

Income Taxes

Taxation authorities may reassess the Corporation's tax returns

The Corporation files all required income tax returns and believes that it is in full compliance with the provisions of the *Income Tax Act* (Canada) and all other applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Corporation, such reassessment may have an impact on current and future taxes payable.

Income tax laws relating to the oil and natural gas industry, such as the treatment of resource taxation or dividends, may in the future be changed or interpreted in a manner that adversely affects the Corporation. Furthermore, tax authorities having jurisdiction over the Corporation may disagree with how the Corporation calculates its income for tax purposes or could change administrative practices to the Corporation's detriment.

Additional Taxation Applicable to Non-Residents

Non-resident shareholders are required to pay additional taxes on their dividends

Tax legislation in Canada may impose withholding or other taxes on the cash dividends, stock dividends or other property transferred by the Corporation to non-resident shareholders. These taxes may be reduced pursuant to tax treaties between Canada and the non-resident shareholder's jurisdiction of residence. Evidence of eligibility for a reduced withholding rate must be filed by the non-resident shareholder in prescribed form with their broker (or in the case of registered shareholders, with the transfer agent). In addition, the country in which the non-resident shareholder is resident may impose additional taxes on such dividends. Any of these taxes may change from time to time.

Foreign Exchange Risk for Non-Resident Shareholders

Variations in foreign exchange rates may affect the amount of cash dividends received by shareholders who receive dividends in currencies other than Canadian dollars

The Corporation's cash dividends are declared in Canadian dollars and may be converted in certain instances to foreign denominated currencies at the spot exchange rate at the time of payment. As a consequence, non-resident shareholders and shareholders who calculate their return in currencies other than the Canadian dollar are subject to foreign exchange risk. To the extent that the Canadian dollar strengthens with respect to their currency, the amount of any dividend will be reduced when converted to their home currency.

Evolving Corporate Governance and Reporting Framework

Evolving corporate governance and reporting framework may increase both compliance costs and the risk of non-compliance that may have an adverse effect on the Corporation

The Corporation's business is subject to evolving corporate governance and public disclosure regulations that have increased both compliance costs and the risk of non-compliance, which could have an adverse effect on the Corporation's costs of doing business. The Corporation is subject to changing rules and regulations promulgated by a number of governmental and self-regulated organizations, including the Canadian Securities Administrators, the TSX and the Financial Accounting Standards Board. These rules and regulations continue to evolve in scope and complexity, making compliance more difficult and uncertain. Further, the Corporation's efforts to comply with these and other new and existing rules and regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

Social Media

The Corporation faces compliance and supervisory challenges in respect of the use of social media as a means of communicating

Increasingly, social media is used as a vehicle to carry out cyber-phishing attacks. Information posted on social media sites, for business or personal purposes, may be used by attackers to gain entry into the Corporation's systems and obtain confidential information. As social media continues to grow in influence and access to social media platforms becomes increasingly prevalent, there are significant risks that the Corporation may not be able to properly regulate social media use and preserve adequate records of business activities and client communications conducted through the use of social media platforms.

Expansion into New Activities

Expanding the Corporation's business may expose it to new risks and uncertainties

The operations and expertise of the Corporation's management are currently focused primarily on oil and natural gas production, exploration and development in the Peace River Arch area of Alberta. In the future, the Corporation may acquire or move into new industry-related activities or new geographical areas or may acquire different energy-related assets, and as a result, the Corporation may face unexpected risks or alternatively, the Corporation's exposure to one or more existing risk factors may be significantly increased, which may in turn result in the Corporation's future operational and financial condition being adversely affected.

Public Health Crises

Public health crises, including the COVID-19, could adversely affect the Corporation's business

The Corporation's business, operations and financial condition could be materially adversely affected by the outbreak of epidemics or pandemics or other health crises. In December 2019, COVID-19 was reported to have surfaced in Wuhan, China and on January 30, 2020, the World Health Organization declared the outbreak a global health emergency. In China, reactions to the spread of COVID-19 have led to, among other things, significant restrictions on travel within China, temporary business closures, quarantines and a general reduction in consumer activity. The outbreak has spread throughout Europe and the Middle East and there have been cases of COVID-19 in Canada and the United States, causing companies and various international jurisdictions to impose restrictions such as quarantines, business closures and travel restrictions. While these effects are expected to be temporary, the duration of the business disruptions internationally and related financial impact cannot be reasonably estimated at this time. Similarly, the Corporation cannot estimate whether or to what extent this outbreak and the potential financial impact may extend to countries outside of those currently impacted.

Such public health crises can result in volatility and disruptions in the supply and demand for oil and natural gas, global supply chains and financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which could affect commodity prices, interest rates, credit ratings, credit risk and inflation. In particular, oil prices have significantly weakened in response to the outbreak of COVID-19. See *"Risk Factors and Risk Management – Prices, Markets and Marketing"* and *"Risk Factors and Risk Management – Weakness and Volatility in the Oil and Natural Gas Industry"*. The risks to the Corporation of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in geographic locations impacted by an outbreak. At this point, the extent to which COVID-19 may impact the Corporation is uncertain; however, it is possible that COVID-19 may have a material adverse effect on the Corporation's business, results of operations and financial condition.

Forward-Looking Information

Forward-looking information may prove inaccurate

Shareholders and prospective investors are cautioned not to place undue reliance on the Corporation's forward-looking statements. By their nature, forward-looking statements involve numerous assumptions and known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties relating to forward-looking statements is found under the heading *"Advisories – Forward-Looking Statements"*.

ABBREVIATIONS

AECO	benchmark price for natural gas determined at the AECO 'C' hub in southeast Alberta
ATP	Alliance Trading Pool
bbl	barrel
bbls	barrels
bbls/d	barrels per day
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day
C3+	propane plus
condensate	pentanes plus (C5+)
F&D	finding and development
G&A	general and administrative
GAAP	generally accepted accounting principles for Canadian public companies which are currently IFRS
GHG	greenhouse gas
GJ	gigajoule
GJ/d	gigajoules per day
HH	Henry Hub
IFRS	International Financial Reporting Standards as issued by the International Accounting Standards Board
LNG	liquefied natural gas
m^3	cubic metres
MMboe	million barrels of oil equivalent
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mcfe	thousand cubic feet of gas equivalent
MJ	megajoule
MM$	millions of dollars
MMBtu	million British thermal units
MMBtu/d	million British thermal units per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
MSW	price for mixed sweet crude oil at Edmonton, Alberta
NGLs	natural gas liquids consisting of ethane (C2), propane (C3) and butane (C4) and specifically excluding condensate
NGTL	NOVA Gas Transmission Ltd.
NYMEX	New York Mercantile Exchange
P&NG	petroleum and natural gas
TCPL	TransCanada PipeLines Limited
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma, for crude oil of standard grade
000s	thousands
$000s	thousands of dollars

NON-GAAP MEASURES

This MD&A uses "adjusted funds flow", "adjusted funds flow per common share", "free funds flow", "transportation and other expense", "operating netback", "adjusted funds flow netback", "total cash costs", "adjusted working capital deficit" and "total debt". These measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Management believes that these non-GAAP measures assist management and investors in assessing Birchcliff's profitability, efficiency, liquidity and overall performance. Each of these measures is discussed in further detail below.

"Adjusted funds flow" denotes cash flow from operating activities before the effects of decommissioning expenditures and changes in non-cash operating working capital and "adjusted funds flow per common share" denotes adjusted funds flow divided by the basic or diluted weighted average number of common shares outstanding for the period. Birchcliff eliminates settlements of decommissioning expenditures from cash flow from operating activities as the amounts can be discretionary and may vary from period-to-period depending on its capital programs and the maturity of its operating areas. The settlement of decommissioning expenditures is managed with Birchcliff's capital budgeting process which considers available adjusted funds flow. Changes in non-cash operating working capital are eliminated in the determination of adjusted funds flow as the timing of collection and payment are variable and by excluding them from the calculation, the Corporation believes that it is able to provide a more meaningful measure of its operations and ability to generate cash on a continuing basis. Management believes that

adjusted funds flow and adjusted funds flow per common share assist management and investors in assessing Birchcliff's operating performance, as well as its ability to generate cash necessary to fund sustaining and/or growth capital expenditures, repay debt, settle decommissioning obligations and pay common share and preferred share dividends. Investors are cautioned that adjusted funds flow should not be construed as an alternative to or more meaningful than cash flow from operating activities or net income or loss as determined in accordance with GAAP as an indicator of Birchcliff's performance. "Free funds flow" denotes adjusted funds flow less F&D capital expenditures. Management believes that free funds flow assists management and investors in assessing Birchcliff's ability to further generate shareholder returns through a number of initiatives, including but not limited to, potential debt repayment, common share repurchases, future dividend increases and acquisitions. The following table provides a reconciliation of cash flow from operating activities, as determined in accordance with GAAP, to adjusted funds flow and free funds flow for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
($000s)	**2019**	**2018**	**2019**	**2018**
Cash flow from operating activities	85,557	92,200	327,066	324,434
Change in non-cash operating working capital	(5,058)	(10,838)	5,153	(12,591)
Decommissioning expenditures	442	155	2,285	1,079
Adjusted funds flow	**80,941**	81,517	**334,504**	312,922
F&D capital expenditures	(56,800)	(52,321)	(256,395)	(299,654)
Free funds flow	**24,141**	**29,196**	**78,109**	**13,268**

"Transportation and other expense" denotes transportation expense plus marketing purchases minus marketing revenue. Birchcliff may enter into certain marketing purchase and sales arrangements with the objective of reducing any available transportation and/or fractionation fees associated with its take-or-pay commitments. Management believes that transportation and other expense assists management and investors in assessing Birchcliff's total cost structure related to transportation activities.

"Operating netback" denotes petroleum and natural gas revenue less royalty expense, less operating expense and less transportation and other expense. "Adjusted funds flow netback" denotes petroleum and natural gas revenue less royalty expense, less operating expense, less transportation and other expense, less net G&A expense, less interest expense and less any realized losses (plus realized gains) on financial instruments and plus any other cash income sources. All netbacks are calculated on a per unit basis, unless otherwise indicated. Management believes that operating netback and adjusted funds flow netback assist management and investors in assessing Birchcliff's operating results by isolating the impact of production volumes to better analyze its performance against prior periods on a comparable basis. The following table provides a breakdown of Birchcliff's operating netback and adjusted funds flow netback for the periods indicated:

	Three months ended December 31,				Twelve months ended December 31,			
	2019		**2018**		**2019**		**2018**	
	($000s)	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*	*($000s)*	*($/boe)*
Petroleum and natural gas revenue	164,759	22.97	154,720	22.01	613,559	21.56	621,421	22.08
Royalty expense	(8,263)	(1.15)	(6,763)	(0.96)	(27,452)	(0.96)	(38,306)	(1.36)
Operating expense	(21,977)	(3.06)	(24,677)	(3.51)	(87,903)	(3.09)	(99,104)	(3.52)
Transportation and other expense	(32,278)	(4.51)	(28,567)	(4.07)	(126,135)	(4.44)	(103,547)	(3.68)
Operating netback	**102,241**	**14.25**	**94,713**	**13.47**	**372,069**	**13.07**	**380,464**	**13.52**
G&A, net	(9,035)	(1.26)	(7,618)	(1.08)	(26,815)	(0.94)	(24,602)	(0.87)
Interest expense	(5,852)	(0.82)	(7,437)	(1.06)	(25,073)	(0.88)	(27,969)	(0.99)
Realized gain (loss) on financial instruments	(6,565)	(0.92)	1,658	0.24	13,673	0.48	(15,771)	(0.56)
Other income	152	0.03	201	0.03	650	0.02	800	0.02
Adjusted funds flow netback	**80,941**	**11.28**	**81,517**	**11.60**	**334,504**	**11.75**	**312,922**	**11.12**

(1) All per boe amounts are calculated by dividing each aggregate financial amount by the production (boe) in the respective period.

The breakdown for the operating netback from the Pouce Coupe Gas Plant is provided under the heading *"Pouce Coupe Gas Plant Netbacks"* in this MD&A.

"Total cash costs" are comprised of royalty, operating, transportation and other, G&A and interest expenses. Total cash costs are calculated on a per unit basis. Management believes that total cash costs assists management and investors in assessing Birchcliff's efficiency and overall cash cost structure.

"Adjusted working capital deficit" is calculated as current assets minus current liabilities excluding the effects of any current portion of financial instruments and capital securities. In 2018, Birchcliff's capital securities were long-term in nature and therefore no adjustment for capital securities was made to adjusted working capital deficit for that period. Management believes that adjusted working capital deficit assists management and investors in assessing Birchcliff's short-term liquidity. The following table reconciles working capital deficit (current assets minus current liabilities), as determined in accordance with GAAP, to adjusted working capital deficit:

As at, *($000s)*	**December 31, 2019**	**December 31, 2018**
Working capital deficit (surplus)	100,199	(15,611)
Financial instrument – current asset	-	36,798
Financial instrument – current liability	(26,949)	-
Capital securities – current liability	(49,845)	-
Adjusted working capital deficit	**23,405**	**21,187**

"Total debt" is calculated as the revolving term credit facilities plus adjusted working capital deficit. Management believes that total debt assists management and investors in assessing Birchcliff's liquidity. The following table provides a reconciliation of the revolving term credit facilities, as determined in accordance with GAAP, to total debt:

As at, *($000s)*	**December 31, 2019**	**December 31, 2018**
Revolving term credit facilities	609,177	605,267
Adjusted working capital deficit	23,405	21,187
Total debt	**632,582**	**626,454**

ADVISORIES

Currency

Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars and all references to "$" and "CDN$" are to Canadian dollars and all references to "US$" are to United States dollars.

MMBtu Pricing Conversions

$1.00 per MMBtu equals $1.00 per Mcf based on a standard heat value Mcf.

Boe and Mcfe Conversions

Boe amounts have been calculated by using the conversion ratio of 6 Mcf of natural gas to 1 bbl of oil and Mcfe amounts have been calculated by using the conversion ratio of 1 bbl of oil to 6 Mcf of natural gas. Boe and Mcfe amounts may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl and an Mcfe conversion ratio of 1 bbl: 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Oil and Gas Metrics

This MD&A contains metrics commonly used in the oil and natural gas industry, including netbacks. These oil and gas metrics do not have any standardized meanings or standard methods of calculation and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. As such, they should not be used to make comparisons. Management uses these oil and gas metrics for its own performance

measurements and to provide investors with measures to compare Birchcliff's performance over time; however, such measures are not reliable indicators of Birchcliff's future performance, which may not compare to Birchcliff's performance in previous periods, and therefore should not be unduly relied upon. For additional information regarding netbacks, see *"Non-GAAP Measures"* in this MD&A.

Capital Expenditures

Unless otherwise stated, references in this MD&A to: (i) "F&D capital" denotes capital for land, seismic, workovers, drilling and completions and well equipment and facilities; and (ii) "total capital expenditures" denotes F&D capital plus acquisitions, less any dispositions, plus administrative assets.

Reserves

Birchcliff retained two independent qualified reserves evaluators, Deloitte LLP and McDaniel & Associates Consultants Ltd., to evaluate and prepare reports on 100% of Birchcliff's light crude oil and medium crude oil (combined), conventional natural gas, shale gas and NGLs reserves effective December 31, 2019. Such evaluations were prepared in accordance with the standards contained in the COGE Handbook and NI 51-101. Further information regarding the Corporation's reserves can be found in the Corporation's Annual Information Form for the financial year ended December 31, 2019.

Certain terms used herein are defined in NI 51-101 or the COGE Handbook and, unless the context otherwise requires, shall have the same meanings in this MD&A as in NI 51-101 or the COGE Handbook, as the case may be.

Forward-Looking Statements

Certain statements contained in this MD&A constitute forward-looking statements and forward-looking information (collectively referred to as "**forward-looking statements**") within the meaning of applicable Canadian securities laws. The forward-looking statements contained in this MD&A relate to future events or Birchcliff's future plans, operations or performance and are based on Birchcliff's current expectations, estimates, projections, beliefs and assumptions. Such forward-looking statements have been made by Birchcliff in light of the information available to it at the time the statements were made and reflect its experience and perception of historical trends. All statements and information other than historical fact may be forward-looking statements. Such forward-looking statements are often, but not always, identified by the use of words such as "seek", "plan", "focus", "future", "outlook", "position", "expect", "project", "intend", "believe", "anticipate", "estimate", "forecast", "guidance", "potential", "proposed", "predict", "budget", "continue", "targeting", "may", "will", "could", "might", "should", "would", "on track" and other similar words and expressions.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Accordingly, readers are cautioned not to place undue reliance on such forward-looking statements. Although Birchcliff believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct and Birchcliff makes no representation that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements.

In particular, this MD&A contains forward-looking statements relating to the following: Birchcliff's plans and other aspects of its anticipated future financial performance, results, operations, focus, objectives, strategies, opportunities, priorities and goals; the information set forth under the heading "*2020 Outlook*" and elsewhere in this MD&A as it relates to Birchcliff's revised 2020 Capital Program and guidance for 2020 (including: statements that Birchcliff is focused on maintaining its strong balance sheet and financial flexibility; the focus of, the objectives of, the anticipated results from and expected benefits of the 2020 Capital Program; statements regarding the number of wells expected to be drilled and brought on production; statements regarding the Inlet Liquids-Handling Facility; and estimates of annual and Q4 average production, annual commodity mix, average expenses, adjusted funds flow, F&D capital expenditures, free funds flow, total debt and natural gas market exposure); Birchcliff's market diversification and risk management activities and any anticipated benefits to be derived therefrom; statements related to reserves and future development costs; future income tax rates; the Corporation's estimated income tax pools and management's expectation that future taxable income will be available to utilize the

accumulated tax pools; the Corporation's liquidity (including: the Corporation's financial flexibility; statements that Birchcliff's capital resources primarily consist of adjusted funds flow and available Credit Facilities; the Corporation's belief that its internally generated adjusted funds flow and its existing undrawn Credit Facilities will provide sufficient liquidity to fund its working capital requirements, capital expenditure programs and dividend payments for the foreseeable future; statements that the Corporation may from time to time seek additional capital in the form of debt and/or equity or dispose of non-core properties to fund its ongoing capital expenditure programs and protect its statements of financial position; the Corporation's expectation that counterparties will be able to meet their financial obligations; and statements that management of debt levels continues to be a priority for Birchcliff); estimates of Birchcliff's material contractual obligations and commitments and decommissioning obligations; statements relating to the Corporation's NCIB (including potential purchases under the bid and the cancellation of common shares under the bid); and statements regarding potential transactions. Statements relating to reserves are forward-looking as they involve the implied assessment, based on certain estimates and assumptions, that the reserves exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

With respect to the forward-looking statements contained in this MD&A, assumptions have been made regarding, among other things: prevailing and future commodity prices and differentials, currency exchange rates, interest rates, inflation rates, royalty rates and tax rates; the state of the economy, financial markets and the exploration, development and production business; the political environment in which Birchcliff operates; the regulatory framework regarding royalties, taxes, environmental, climate change and other laws; the Corporation's ability to comply with existing and future environmental, climate change and other laws; future cash flow, debt and dividend levels; future operating, transportation, marketing, general and administrative and other expenses; Birchcliff's ability to access capital and obtain financing on acceptable terms; the timing and amount of capital expenditures and the sources of funding for capital expenditures and other activities; the sufficiency of budgeted capital expenditures to carry out planned operations; the successful and timely implementation of capital projects and the timing, location and extent of future drilling and other operations; results of operations; Birchcliff's ability to continue to develop its assets and obtain the anticipated benefits therefrom; the performance of existing and future wells; the success of new wells drilled; reserves and resource volumes and Birchcliff's ability to replace and expand reserves through acquisition, development or exploration; the impact of competition on Birchcliff; the availability of, demand for and cost of labour, services and materials; the ability to obtain any necessary regulatory or other approvals in a timely manner; the satisfaction by third parties of their obligations to Birchcliff; the ability of Birchcliff to secure adequate processing and transportation for its products; Birchcliff's ability to successfully market natural gas and liquids; the availability of hedges on terms acceptable to Birchcliff; and Birchcliff's natural gas market exposure. In addition to the foregoing assumptions, Birchcliff has made the following assumptions with respect to certain forward-looking statements contained in this MD&A:

- Birchcliff's 2020 guidance (as updated March 11, 2020) assumes the following commodity prices and exchange rate: an average WTI spot price of US$48.00/bbl; an average WTI-MSW differential of CDN$5.70/bbl; an average AECO 5A spot price of CDN$1.90/GJ; an average Dawn spot price of US$2.15/MMBtu; an average NYMEX HH spot price of US$2.20/MMBtu; and an exchange rate (CDN$ to US$1) of 1.34.
- With respect to estimates of 2020 capital expenditures and Birchcliff's spending plans for 2020, such estimates and plans assume that the revised 2020 Capital Program will be carried out as currently contemplated. Birchcliff makes acquisitions and dispositions in the ordinary course of business. Any acquisitions and dispositions completed could have an impact on Birchcliff's capital expenditures, production, adjusted funds flow, free funds flow, costs and total debt, which impact could be material. The amount and allocation of capital expenditures for exploration and development activities by area and the number and types of wells to be drilled and brought on production is dependent upon results achieved and is subject to review and modification by management on an ongoing basis throughout the year. Actual spending may vary due to a variety of factors, including commodity prices, economic conditions, results of operations and costs of labour, services and materials.
- With respect to Birchcliff's estimates of adjusted and free funds flow for 2020, such estimates assume that: the revised 2020 Capital Program will be carried out as currently contemplated and the level of capital spending for

2020 set forth herein will be achieved; and the targets for production, commodity mix and natural gas market exposure and the commodity price and exchange rate assumptions set forth herein are met.

- With respect to Birchcliff's production guidance, such guidance assumes that: the revised 2020 Capital Program will be carried out as currently contemplated; no unexpected outages occur in the infrastructure that Birchcliff relies on to produce its wells and that any transportation service curtailments or unplanned outages that occur will be short in duration or otherwise insignificant; the construction of new infrastructure meets timing and operational expectations; existing wells continue to meet production expectations; and future wells scheduled to come on production meet timing, production and capital expenditure expectations. Birchcliff's production guidance may be affected by acquisition and disposition activity.
- With respect to statements of future wells to be drilled and brought on production, the key assumptions are: the continuing validity of the geological and other technical interpretations performed by Birchcliff's technical staff, which indicate that commercially economic volumes can be recovered from Birchcliff's lands as a result of drilling future wells; and that commodity prices and general economic conditions will warrant proceeding with the drilling of such wells.
- With respect to estimates of reserves, the key assumption is the validity of the data used by Deloitte and McDaniel in their independent reserves evaluations.

Birchcliff's actual results, performance or achievements could differ materially from those anticipated in the forward-looking statements as a result of both known and unknown risks and uncertainties including, but not limited to: general economic, market and business conditions which will, among other things, impact the demand for and market prices of Birchcliff's products and Birchcliff's access to capital; volatility of crude oil and natural gas prices; fluctuations in currency exchange and interest rates; stock market volatility; the risks posed by pandemics and epidemics and their impacts on supply and demand and commodity prices; loss of market demand; an inability to access sufficient capital from internal and external sources on terms acceptable to the Corporation; fluctuations in the costs of borrowing; operational risks and liabilities inherent in oil and natural gas operations; the occurrence of unexpected events such as fires, severe weather, explosions, blow-outs, equipment failures, transportation incidents and other similar events affecting Birchcliff or other parties whose operations or assets directly or indirectly affect Birchcliff; an inability to access sufficient water or other fluids needed for operations; uncertainty that development activities in connection with Birchcliff's assets will be economic; an inability to access or implement some or all of the technology necessary to efficiently and effectively operate its assets and achieve expected future results; uncertainties associated with estimating oil and natural gas reserves and resources; the accuracy of estimates of reserves, future net revenue and production levels; geological, technical, drilling, construction and processing problems; uncertainty of geological and technical data; horizontal drilling and completions techniques and the failure of drilling results to meet expectations for reserves or production; uncertainties related to Birchcliff's future potential drilling locations; delays or changes in plans with respect to exploration or development projects or capital expenditures, including delays in the completion of gas plants and other facilities; the accuracy of cost estimates and variances in Birchcliff's actual costs and economic returns from those anticipated; incorrect assessments of the value of acquisitions and exploration and development programs; changes to the regulatory framework in the locations where the Corporation operates, including changes to tax laws, Crown royalty rates, environmental laws, climate change laws, carbon tax regimes, incentive programs and other regulations that affect the oil and natural gas industry and other actions by government authorities; an inability of the Corporation to comply with existing and future environmental, climate change and other laws; the cost of compliance with current and future environmental laws; political uncertainty and uncertainty associated with government policy changes; dependence on facilities, gathering lines and pipelines, some of which the Corporation does not control; uncertainties and risks associated with pipeline restrictions and outages to third-party infrastructure that could cause disruptions to production; the lack of available pipeline capacity and an inability to secure adequate and cost-effective processing and transportation for Birchcliff's products; an inability to satisfy obligations under Birchcliff's firm marketing and transportation arrangements; a failure to comply with covenants under Birchcliff's credit facilities; shortages in equipment and skilled personnel; the absence or loss of key employees; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, equipment and skilled personnel; management of Birchcliff's growth;

environmental and climate change risks, claims and liabilities; potential litigation; default under or breach of agreements by counterparties and potential enforceability issues in contracts; claims by Indigenous peoples; the reassessment by taxing or regulatory authorities of the Corporation's prior transactions and filings; unforeseen title defects; third-party claims regarding the Corporation's right to use technology and equipment; uncertainties associated with the outcome of litigation or other proceedings involving Birchcliff; uncertainties associated with credit facilities and counterparty credit risk; risks associated with Birchcliff's risk management activities and the risk that hedges on terms acceptable to Birchcliff may not be available; risks associated with the declaration and payment of future dividends, including the discretion of Birchcliff's Board of Directors to declare dividends and change the Corporation's dividend policy; the failure to obtain any required approvals in a timely manner or at all; the failure to complete or realize the anticipated benefits of acquisitions and dispositions and the risk of unforeseen difficulties in integrating acquired assets into Birchcliff's operations; negative public perception of the oil and natural gas industry and fossil fuels, including transportation and hydraulic fracturing involving fossil fuels; the Corporation's reliance on hydraulic fracturing; market competition, including from alternative energy sources; changing demand for petroleum products; the availability of insurance and the risk that certain losses may not be insured; breaches or failure of information systems and security (including risks associated with cyber-attacks); risks associated with the ownership of the Corporation's securities; the accuracy of the Corporation's accounting estimates and judgments; and potential requirements under applicable accounting standards for the impairment or reversal of estimated recoverable amounts of the Corporation's assets from time to time.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other risk factors that could affect results of operations, financial performance or financial results are included in Birchcliff's most recent Annual Information Form and in other reports filed with Canadian securities regulatory authorities.

This MD&A contains information that may constitute future-orientated financial information or financial outlook information (collectively, "**FOFI**") about Birchcliff's prospective results of operations including, without limitation, adjusted funds flow, free funds flow and total debt, all of which are subject to the same assumptions, risk factors, limitations and qualifications as set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise or inaccurate and, as such, undue reliance should not be placed on FOFI. Birchcliff's actual results, performance and achievements could differ materially from those expressed in, or implied by, FOFI. Birchcliff has included FOFI in order to provide readers with a more complete perspective on Birchcliff's future operations and management's current expectations relating to Birchcliff's future performance. Readers are cautioned that such information may not be appropriate for other purposes. FOFI contained herein was made as of the date of this MD&A. Unless required by applicable laws, Birchcliff does not undertake any obligation to publicly update or revise any FOFI statements, whether as a result of new information, future events or otherwise.

Management has included the above summary of assumptions and risks related to forward-looking statements provided in this MD&A in order to provide readers with a more complete perspective on Birchcliff's future operations and management's current expectations relating to Birchcliff's future performance. Readers are cautioned that this information may not be appropriate for other purposes.

The forward-looking statements contained in this MD&A are expressly qualified by the foregoing cautionary statements. The forward-looking statements contained herein are made as of the date of this MD&A. Unless required by applicable laws, Birchcliff does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.